FISMA

CALIFORNIA MARITIME ACADEMY

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Staff

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

AP	Accounts Payable
AR	Accounts Receivable
CMA	California Maritime Academy
CSU	California State University
FISMA	Financial Integrity State Manager's Accountability Act
FRS	Financial Reporting System
ITS	Information Technology Systems
PO	Purchase Order
SAM	State Administrative Manual
SUAM	State University Administrative Manual
SRR	Stock Received Report

INTRODUCTION

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 1995-96 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 January to June 1996. 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 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 and accumulation of leave credits in compliance with state policies;
- posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;
- access restrictions to 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 California Maritime Academy from April 22, 1996 through July 19, 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.)*

Our audit disclosed conditions which, in our opinion, if not corrected would likely result in significant errors and irregularities. Specifically, the campus does not maintain adequate internal control over the following areas: cash receipting, accounts receivables and cash disbursements. Other areas needing improvement are found in the Executive Summary.

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.

SEGREGATION OF DUTIES [7]

> Segregation of duties was not adequate in the accounting function. Separating duties reduces the risk that state funds will be misused.

CASH RECEIPTS

FEE AUTHORIZATION [7]

Student fees were not formally authorized. Formal authorization of fees assures that only proper CSU fees are assessed and collected.

FEE RECONCILIATION [8]

The campus did not reconcile state university fees. Reconciling state university fees to students enrolled, reduces the risk of a misappropriation of funds going undetected.

ACCOUNTS RECEIVABLE

AUXILIARY BILLINGS [8]

Billings to auxiliary organizations were not timely. Timely billings to auxiliary organizations increases both working capital and investment earnings for the state.

MANAGEMENT OF ACCOUNTS RECEIVABLE [9]

Receivables were not in a condition that was readily auditable. Proper management of receivables increases the likelihood that all amounts owed will be collected.

FINANCIAL AID RECEIVABLE [10]

The campus was improperly making refunds of federal financial aid awards using the general fund support appropriation. Proper expenditures of general fund monies increases the working capital available to the campus.

PROCUREMENT

RECEIPT OF GOODS [11]

Purchased goods are oftentimes receipted by the ordering department rather than the receiving department. The use of proper delivery and receipt procedures ensures that all goods purchased and paid for are actually received and in a satisfactory condition.

CHANGE CONTROL [11]

Purchase order change control was inadequate. Control over purchase order changes reduces the likelihood that payment will be made for items which were either not received or deleted from the original order.

REVOLVING FUND

RECONCILIATIONS [12]

Revolving fund reconciliations were not prepared and reviewed on a timely basis. Timely reconciliations increase the capability of the campus to detect errors and irregularities.

CHANGE AND PETTY CASH FUNDS [12]

Change and petty cash funds were not counted as often as required. Funds were not counted when they were transferred between cashiers. Counting change/purchase funds timely strengthens internal controls over those funds

CASH DISBURSEMENTS

DOCUMENTATION [14]

Accounts payable documentation was incomplete. The use of proper delivery and receipt procedures ensures that all goods purchased and paid for were actually received.

CHECK STOCK CONTROL [14]

The campus did not properly control blank check stock. Placing proper control over blank check stock ensures that university funds are not misused.

BANK RECONCILIATIONS [15]

Bank reconciliations were neither timely nor accurate. The ability of the campus to detect errors and irregularities is increased when bank reconciliations are prepared and reviewed on a timely basis.

DISCOUNTS [16]

The campus did not pursue vendor discounts. Taking full advantage of vendor discounts assures that funds are not expended that could be used for other purposes.

FIXED ASSETS

PROPERTY RECONCILIATIONS [17]

The campus had not reconciled property to the general ledger since the beginning of the 1995/96 fiscal year. Reconciling property to the general ledger assures that fixed assets are properly stated in the accounting records.

PHYSICAL INVENTORY [17]

The campus had not taken a complete physical inventory and reconciled it to accounting records in the past three years. Periodic inventories reduce the campus' exposure to loss/or misuse of fixed assets.

INVESTMENTS [18]

The campus did not invest excess cash nor did they analyze cashflow for possible investment. To assure that the campus does not forego investment earnings, the campus should establish and implement investment procedures.

TRUST ACCOUNTS [19]

The campus did not have formally established trust accounts. Formally documenting and segregating special purpose funds into trust accounts ensures that funds are used for only those purposes indicated.

POLICIES AND PROCEDURES [19]

The accounting department did not have formally documented policies and procedures. To ensure that internal controls are not compromised, policy and procedures should be documented and communicated to employees in the organization.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SEGREGATION OF DUTIES

Segregation of duties was not adequate in the accounting function.

We noted that the regular cashier opened mail, received cash over the counter, prepared deposits and fee invoices. In addition, the back-up cashier prepared bank reconciliations, had access to blank check stock and performed general accounts receivable (AR) duties. Also, two accounting technicians performed both accounts payable (AP) and AR. Finally, the director of business services had check request authority as well as purchase order/contract approval and check signing authority.

SAM Sections 8080 and 20003 require a level of duty segregation that assures resources will be safeguarded against waste, loss, and misuse.

The director of business services indicated that current resources did not allow for an optimum level of duty separation.

Inadequate segregation of duties increases the risk that state funds will be misused.

Recommendation 1

We recommend that the campus separate duties in the accounting function to minimize the risk of misuse of funds.

Campus Response

We concur with the recommendation and will attempt to align duties accordingly. SAM Sections 8080 and 20003 are being researched to provide the needed separation of duties utilizing a small number of staff

CASH RECEIPTS

FEE AUTHORIZATION

Student fees were not formally authorized.

Executive Order No. 362 requires formal authorization and documentation of student fees.

Prior to entering the CSU, the academy operated as an independent state agency. The director of business services indicated that formal fee authorization was not required as an independent state agency and they were not made aware of the requirement when they became part of the CSU.

Improper fees could be assessed and collected if the required authorization is not formalized under CSU guidelines.

Recommendation 2

We recommend that the campus formally authorize and document student fees.

Campus Response

We concur with this recommendation. CMA was unaware of this requirement upon joining the CSU.

FEE RECONCILIATION

The campus did not reconcile state university fees.

SUAM Section 3825.02 requires a reconciliation of state university fees to the number of students enrolled on census date for each academic term.

The accounting manager indicated that the reconciliation was not a requirement as an independent state agency and that they were not informed of it after entering the CSU.

By not reconciling state university fees collected to students enrolled, a misappropriation of funds may go undetected.

Recommendation 3

We recommend that a reconciliation of state university fees to the number of students on census date be prepared for each academic term.

Campus Response

We concur with this recommendation. CMA was unaware of this requirement upon joining the CSU. The reconciliation for the fall 1996 semester has been completed.

ACCOUNTS RECEIVABLE

AUXILIARY BILLINGS

Billings to auxiliary organizations were not completed timely.

We noted that $694,203 in chargebacks incurred from July through December 1995 were not billed until April 1996.

SAM Section 8776.3 requires the preparation of an invoice as soon as possible after the recognition of a claim.

We were informed by the accounting manager that other priorities, such as learning the CSU's financial reporting system (FRS) and reversing misstated cash accounts that resulted from errors created during the conversion to FRS, took precedent over billings/receivables.

Untimely billings to auxiliary organizations reduces both campus working capital and investment earnings for the state.

Recommendation 4

We recommend that the campus develop and enact procedures that will assure the billing of auxiliaries as claims are recognized.

Campus Response

We concur with this recommendation. Monthly and quarterly billings will be prepared as appropriate for independent operations.

MANAGEMENT OF ACCOUNTS RECEIVABLE

Receivables were not in a condition that was readily auditable.

In preparation for our review of the accounts receivable function, we asked that certain documents be provided. The documents provided by the campus were incomplete and/or inaccurate. Examples of the documentation provided included: reports which were not kept up to date; invalid or paid receivables were not removed from the AR aging report, while some valid receivables were not included; the student receivable report/data base maintained in accounting and the cashier's student receivable report were not aged. In addition, none of the reports balanced to each other. Also, there was no evidence of management review of any of the AR reports.

SAM Section 20003 requires a system of record keeping procedures that provide effective accounting control over assets. Further, SAM Sections 8776.6 and 8776.7 require state agencies to develop collection procedures that will assure prompt follow-up of accounts receivable.

We were informed by the accounting manager that other priorities took precedent over billings/receivables.

Failure to properly manage receivables reduces the likelihood that all amounts owed will be collected.

Recommendation 5

We recommend that the campus develop and enact procedures that will ensure that accounts receivable are properly managed.

Campus Response

We concur with this recommendation. CMA had an automated AR system which we lost under FRS. Manual records are now being kept pending the implementation of an automated system. It is hoped the automated system will be on line by July 1, 1996.

FINANCIAL AID RECEIVABLES

The campus was improperly making refunds of federal financial aid awards using the general fund support appropriation.

We noted that five students who received financial aid totaling $8,065 were disenrolled after the start of the Spring ‘96 semester. An amount equivalent to the student’s total financial aid award was refunded to the lender or grantor with general fund monies.

Students are responsible for the repayment of federal financial aid once loans are made, it is not the responsibility of the campus to repay them.

The financial aid director informed us that federal regulations required the immediate return of any financial aid over awards. The director of business services stated that this interpretation of the regulations was based on a 1990 financial aid audit and provided us with supporting documentation. However, the documentation we were provided with indicated that the request for the academy to return financial aid was an isolated incident involving a single student. There was no indication that the academy was required to return all future financial aid to a lender or grantor after the campus had rendered services to a student who entered the academy on financial aid.

Inappropriate expenditures of general fund monies reduces the working capital available to the campus.

Recommendation 6

We recommend that the campus refrain from refunding student financial aid directly to lenders and grantors.

Campus Response

We concur with this recommendation. Past practice has stopped. A written policy to this effect is being developed.

PROCUREMENT

RECEIPT OF GOODS

Purchased goods are oftentimes receipted by the ordering department rather than the receiving department.

Of the 27 purchase transactions we reviewed, we noted seven instances (26%) in which purchased items bypassed the receiving department. Although stock received reports (SRRs) were prepared in certain instances, to process payments, we could not verify that the purchases were complete upon receipt.

SAM Section 8422.20 requires the preparation and forwarding of an SRR to the accounting office to process payments only after carefully checking the quantity, description, and condition of the goods. When SRRs are prepared or signed by a person other than the person actually receiving and checking the goods, the person signing the report should take precautionary measures to assure that the goods were actually received and checked.

The material and stores specialist indicated that when he is informed of an order received in a department, he will go to that department to fill out the SRR. However, he must rely on the representations made by personnel in that department as to items received and their condition.

The campus cannot be assured that all goods purchased and paid for are actually received and in a satisfactory condition.

Recommendation 7

We recommend that the campus implement procedures which assure that purchased items are received and accepted by receiving department personnel.

Campus Response

We concur with this recommendation. Procedures have been put in place for compliance.

CHANGE CONTROL

Purchase order change control was inadequate.

Rather than issue amended POs, the campus made hand written changes to original documents. The changes were not accompanied by justifications or authorizations. This process made it difficult to determine which items on POs should be paid for and required extra effort to verify that items were appropriately authorized for purchase and payment.

SAM Section 20003 requires agencies to establish a system of internal control such that resources are safeguarded against waste, loss, and misuse.

A lack of communication between the purchasing and accounts payable departments was a major factor leading to the process difficulties.

Inadequate control over purchase order changes increases the likelihood that payment will be made for items which were either not received or deleted from the original order.

Recommendation 8

We recommend that the campus implement a change order control procedure that accounts for the number and types of changes.

Campus Response

We concur with this recommendation. Procedures have been put in place for compliance.

REVOLVING FUNDS

RECONCILIATIONS

Revolving fund reconciliations were not prepared and reviewed on a timely basis.

We reviewed the March, April and May 1996 reconciliations and noted that: the March reconciliation was prepared 16 days late and reviewed 80 days late; the April reconciliation was reviewed 48 days late; and, the May reconciliation was prepared 18 days late and reviewed 19 days late.

SAM Section 7900 requires the preparation and review of reconciliations within thirty days of the preceding month.

The accounting technician and accounting manager informed us that other priorities, such as learning the CSU financial reporting system and reversing misstated cash accounts, took precedent.

Errors and irregularities are difficult to detect when reconciliations are not prepared and reviewed on a timely basis.

Recommendation 9

We recommend that the campus prepare and review revolving fund reconciliations on a monthly basis.

Campus Response

We concur with this recommendation. The procedure of reconciling on FRS is understood and will be done monthly.

CHANGE AND PETTY CASH FUNDS

Change and petty cash funds were not counted as often as required. Funds were not counted when they were transferred between cashiers.

SAM Section 8111.2 states that transfers of fund custody will be accomplished only after: (a) personal audit of the fund has been made by the employees directly concerned; and (b) a receipt has been given by the newly assigned custodian to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting officer. An employee other than the custodian of the change or petty cash fund will count it in accordance with the following schedule:

Size of Fund	**Frequency of Count**
$200.00 or less	Annually
$200.01 to $500.00	Quarterly
$500.01 to $2500.00	Monthly
Over $2500.00	Monthly, if not prescribed more frequently by Fiscal Systems and Consulting Unit, Department of Finance.

The accounting manager indicated that she was not aware of the need to count funds as often as required by the above schedule. The cashiers stated that they were unaware of the necessity to perform and document a count when transfers take place.

Internal control of cash funds is compromised when the accountability requirement is not performed.

Recommendation 10

We recommend that the campus ensure that cash counts are performed as often as required and that funds are counted when transferred between custodians.

Campus Response

We concur with this recommendation. Procedures have been put in place for compliance.

CASH DISBURSEMENTS

DOCUMENTATION

Accounts payable documentation was incomplete.

Of the 27 purchase transactions we reviewed, we noted two instances (8%) in which stock received reports (SRRs) did not reconcile to invoices and POs. Further, we noted four instances (15%) in which payments were made without an SRR on file in AP.

SAM Section 8422.1 states that before an invoice is submitted for payment on a claim schedule, the agency will determine that invoiced items have been received and that they comply with the provisions of the PO. SAM Section 8422.20 requires the availability of POs, invoices and SRRs for comparison prior to submitting a claim for payment.

Departments receiving the goods directly authorized payments on copies of the invoices to expedite payments and receiving personnel relied on departmental personnel to accurately verify items that were received in their department.

The campus cannot be assured that all goods purchased and paid for are actually received.

Recommendation 11

We recommend that the campus ensure that all payable documents are presented to AP for comparison and that documents reconcile before payments are processed.

Campus Response

We concur with this recommendation. Additional staff training has been completed and proper procedures documented.

CHECK STOCK CONTROL

The campus did not properly control blank check stock.

Our review indicated that there were three active accounts, each with separate check stock.

> The campus purchased and received 20,000 checks for the regular revolving fund on July 30, 1993. The checks were not put into service until January 1994. As of 5/22/96 the campus has used only 6,152 of the checks for a monthly average of 212 checks. This is a retention rate of eight years.
>
> The training ship had a separate revolving fund. We estimate that these checks were placed into service sometime in the late 1970’s or early 1980’s. There is no record of when the checks were received in the cashier’s office and no inventory of check numbers on hand. The cashier has kept a log of checks that she has issued out of inventory for the last 9 years. Her log indicates that only 42 checks have been issued. We inventoried the checks and found that 993 checks were still on hand.

An additional account was established in October 1995 for use by accounting in the handling of auxiliary services funds. One thousand checks were ordered for this account. As of 5/22/96, no checks have been written from the account.

SAM Section 3696.1 does not permit an agency to store more than a two year supply of check stock.

The accounting manager informed us that the campus was bound by a state contract that required a minimum order of 20,000 checks and she knew of no exception to this.

The accounting manager informed us that the Bank of America account was established because they mistakenly believed they would be writing checks for auxiliary services after the academy became part of the CSU.

Improper control over blank check stock creates the potential for the misuse of university funds.

Recommendation 12

We recommend that the campus:

a. destroy old, excess and outdated check stock:
b. assure that proper procedures are in place for the control and accounting of check stock.

Campus Response

We concur with this recommendation. The Academy was unaware that less than the minimum number of checks could be ordered. Excess checks for the general checking account (245) will be destroyed as soon as the requirements of direct vendor pay are understood. Excess checks for the cruise revolving fund (247) will be immediately destroyed. Auxiliary (Independent Operations) checks have already been destroyed.

BANK RECONCILIATIONS

Bank reconciliations were neither timely nor accurate.

Our review indicated that the first bank reconciliation prepared for the 1995/96 fiscal year was in February 1996 (for the July 1995 period). Incorrect balances were used in preparing the reconciliations.

SAM Section 7900 requires the accurate preparation of reconciliations within thirty days of the preceding month.

The accounting manager informed us that accounting was not provided with the necessary data to complete bank reconciliations until February 1996. The accounting manager also indicated that in May 1996, they learned that SAM 11 reports are to be used to arrive at agency balances. Therefore, accounting began the process of revising the reconciliations already prepared.

Errors and irregularities are difficult to detect when reconciliations are not prepared and reviewed on a timely basis.

Recommendation 13

We recommend that the campus accurately prepare and review bank reconciliations on a monthly basis.

Campus Response

We concur with this recommendation. Bank reconciliations were always completed timely but, as we had difficulty implementing FRS, 95/96 FY reconciliations were delayed. As of this date, the bank reconciliations are current.

DISCOUNTS

The campus did not pursue vendor discounts.

SAM Section 8422.1 requires the campus to apply discounts on invoices submitted on claim schedules. Further, SAM Section 8113 permits the campus to pay discounted invoices through the revolving fund if time is of the essence.

The accounting technician informed us that discounts were not taken because a claim schedule cannot be processed in time to take advantage of the discount.

By not taking full advantage of vendor discounts, the campus is expending funds that could be used for other purposes.

Recommendation 14

We recommend that the campus take advantage of all vendor discounts when practical.

Campus Response

We concur with this recommendation. Procedures have been put in place for compliance. Staff has been given additional training on correct procedures in paying invoices.

FIXED ASSETS

PROPERTY RECONCILIATIONS

The campus had not reconciled property to the general ledger since the beginning of the 1995/96 fiscal year.

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 accounting manager indicated that reconciliations were not being performed because: campus inventory had not been loaded onto the FRS property ledger from the academy's previous accounting system; new acquisitions were not being recorded as property in the accounting system; and, property disposals were not being deleted from the accounting records.

Failing to reconcile and properly account for fixed assets misstates the accounting records and does not provide a method for identifying errors and irregularities.

Recommendation 15

We recommend that the campus correct the accounting records and reconcile property inventory with changes in the general ledger on at least a quarterly basis.

Campus Response

We concur with this recommendation. A physical inventory by an outside firm is scheduled for January 1997. This will include the actual inventory, bar coding of all equipment, set up of a computerized system to maintain the records and adjusting the general ledger as necessary to reconcile. A CPA firm has already been awarded the contract.

PHYSICAL INVENTORY

The campus had not taken a complete physical inventory and reconciled it to accounting records in the past three years.

SAM Section 8652 requires a physical count of all property and a reconciliation of the count to accounting records at least once every three years.

The director of business services indicated that a physical inventory is being delayed until the campus can contract with an outside organization to conduct the count.

Failure to take a periodic inventory exposes the campus to loss and/or misuse of fixed assets.

Recommendation 16

We recommend that the campus complete a physical inventory and reconcile it to the accounting records.

Campus Response

We concur with this recommendation. See campus response of Recommendation 15.

INVESTMENTS

The campus did not invest excess cash nor did they analyze cash flow for possible investment.

SUAM Section 2813 provides that whenever possible, excess cash should be invested in order to maximize funds.

The director of business services indicated that investing excess cash was not permitted under CMA's prior status as an independent state agency. Further, errors in cash balances were created during the conversion to FRS. As such, the campus was not able to rely on information provided from FRS nor were they able to determine the status of cash or forecast it. However, prior to our leaving the campus, the director of business services informed us that the cash balances had been corrected.

The campus has forgone investment earnings by failing to analyze cash flow and invest excess cash.

Recommendation 17

We recommend that the campus establish and implement procedures which provide for the analysis of cash flow and investment of excess cash.

Campus Response

We concur with this recommendation. CMA did have Trust funds invested last year in Certificate of Deposit accounts and an interest bearing checking account. We are in the process of developing procedures for investing cash and are reviewing the September draft report on the Review of Investments.

TRUST ACCOUNTS

The campus did not have formally established trust accounts.

SUAM Section 3700 requires the segregation into trust accounts those funds collected and expended for specific purposes. Further, each trust project must be supported by documentation in accordance with SAM Section 19440.1.

The director of business services indicated that trust accounts were not required under CMA's prior status as an independent state agency.

The risk of misuse of special purpose funds is increased when they are not documented and segregated into specific trust accounts.

Recommendation 18

We recommend that the campus establish and implement trust account procedures.

Campus Response

We concur with the recommendation. Prior to joining CSU we had use of several trust accounts, 948, 838 and 942. We were unaware of the requirements of SUAM. The director of business services is currently working on establishing trust account procedures with a completion date of January 1, 1997.

POLICIES AND PROCEDURES

The accounting department did not have formally documented policies and procedures.

SAM Section 20003, states that experience has indicated that the nonexistence of policy and procedural or operational manuals are a danger signal of a poorly maintained or vulnerable control system. The symptom may apply to the organization as a whole or to individual units or activities. Agency heads and managers should be alert to identify and make the necessary corrections when warned by such a danger.

Although the accounting manager recognized the need, she indicated that they were still learning the CSU accounting system. Therefore, compilation of a policy and procedures manual is a low priority but will be addressed as they gain more expertise.

Internal controls can be compromised if not properly documented and communicated to employees in the organization.

Recommendation 19

We recommend that the campus assure that policy and procedures are documented and communicated to personnel.

Campus Response

We concur with this recommendation. At the time of the review the accounting staff were in the midst of converting records to FRS. They were not familiar with many of the requirements of the CSU. There are now many procedures in writing with more warranted. The accounting manager will review those completed and research other campuses for input. An updated and useful manual of accounting procedures will be completed by June 30, 1996. Monthly reviews will be done on the progress of the manual.

APPENDIX A:
PERSONNEL CONTACTED

Name	Title
Jerry Aspland	President
Lee Allen	Director, Plant Operations
Janice Beitle	Accountant
Paul Bidinger	Director, Financial Aid
Charlie Bonham	Vice President Administration and Student Services
Margo Crowley	Manager, Human Resources
Vineeta Dhillon	Accounting Technician
Edward Gerry	Material and Stores Specialist
Gale Gomez	Accounting Technician
Jill Johns	Director of Business Services
Susan Johnson	Accounting Technician
La Vita Lester	Cashier
Donna Lichty	Buyer
Sylvester Morris	Director, Public Safety
Mary Pierce	Manager, Purchasing/Contracts
Christy Redford	Accounting Manager
Cheri Sims	Payroll Technician

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.