

FISMA

SAN JOSE STATE UNIVERSITY

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ABBREVIATIONS

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual

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's 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 August to November 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 San Jose State University from September 16, 1996 through November 15, 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 [5]

Our review of satellite cash collection centers indicated that internal controls over cashing in the library and health center were not adequate. Security/internal control over cash is increased when access to cash registers is adequately restricted, safe combinations are changed, and access to the department's safe is properly documented.

ACCOUNTS RECEIVABLE [6]

Payroll overpayments were not followed-up timely. Establishing procedures to properly manage and follow up on outstanding employee receivables will increase the likelihood that all amounts owed will be collected.

PROCUREMENT [6]

Signature authorization cards in the purchasing department were not kept updated or were not on file for all accounts in our purchasing sample. Proper expenditure authorizations are assured when signature records are current and updated timely.

REVOLVING FUND

CHANGE/PETTY CASH FUND COUNTS [7]

The campus's 19 change funds and 16 petty cash funds were not counted as often as required. Internal control over cash funds is increased when the accountability requirement is performed consistently and timely.

CHANGE/PETTY CASH FUND DOCUMENTATION [8]

Change/petty cash funds were not properly documented in all instances. Proper documentation of custodial responsibility with regard to change/petty cash funds both reduces the risk of loss and increases employee accountability.

FIXED ASSETS [8]

Fixed asset acquisitions were not always coded in the correct sub-account. Correctly coding fixed assets enables accounting records to be properly stated as well as assuring that items will be identified and tagged as a state asset.

TRUST ACCOUNTS [9]

Trust account signature authorizations were not updated on a regular basis. In order to assure the campus that only authorized expenditures are made from trust funds, signature update must take place on a timely basis.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Our review of satellite cash collection centers indicated that internal controls in the health center and library were not adequate. We noted that:

- ▶ No record was maintained of personnel with access to the library's and health center's safe.
- ▶ The library's safe combination has not been changed in at least nine years even though individuals have left the employ of the library.
- ▶ There was no formal accountability of personnel who used the library register, i.e., more than one employee worked from the library's sole cash drawer throughout the day.

SAM Section 8024 requires the changing of safe combinations when employees leave a department and the retention of a record listing the names of individuals with knowledge of a department's safe combination. In addition, SAM Section 20003 requires agencies to establish a system of internal control such that resources are safeguarded against waste, loss, and misuse.

The health center associate director and the library discharge supervisor indicated that they had not been informed of the safe documentation requirement. The discharge supervisor also indicated that he was not aware of the requirement to change the safe's combination or the need for cash register access accountability.

Security/internal control over cash is compromised when access to cash registers are not adequately restricted, safe combinations are not changed as required, and access to safes are not properly documented.

Recommendation 1

We recommend that the campus assure that all necessary internal controls are appropriately applied to satellite cash collection centers.

Campus Response

We concur. We are in the process of working with San Jose State University Library and Health Center staff to review their cash collection policies and implement procedures to ensure adequate internal controls are in place and maintained.

ACCOUNTS RECEIVABLE

Payroll overpayments were not followed up timely.

As of September 26, 1996, \$28,465 was outstanding in payroll overpayment receivables. An aging of these receivables indicated that \$25,933 was over ninety days old, and \$2,533 was over sixty days old.

SAM Sections 8776.6 and 8776.7 require state agencies to develop collection procedures that will assure prompt follow-up of accounts receivable.

The associate director payroll indicated that she was unaware of the condition as she periodically reminds the payroll staff to closely monitor advances. She also cited improper training of a new payroll technician and a lack of communication between payroll staff and accounting personnel for delays in collecting the receivables.

Not following up and properly managing employee receivables reduces the likelihood that all amounts owed will be collected.

Recommendation 2

We recommend that the campus establish procedures to timely manage and follow up on outstanding employee payroll receivables.

Campus Response

We concur. We have implemented new policies to ensure monthly reconciliations are performed and that there is timely follow up to outstanding issues.

PROCUREMENT

Signature authorization cards in the purchasing department were not kept up-to-date or were not on file for 11 of the 22 (50%) accounts in our purchasing sample.

SAM Section 20003 requires a system of internal control and record keeping procedures that provide effective control over assets.

The director logistical services indicated that campus departments are responsible for providing and updating signature authorization cards as required. Also, purchasing personnel are familiar with individuals in campus departments who are or should be authorized to approve expenditures.

Improper expenditure authorizations can occur when signature records are not current and updated timely.

Recommendation 3

We recommend that the campus/procurement office assure that current signature authorization cards are on file for each account.

Campus Response

We concur. We are developing new procedures to ensure timely updates to authorization files.

REVOLVING FUND

CHANGE/PETTY CASH FUND COUNTS

Seven of the campus's nineteen change funds and three of its sixteen petty cash funds were not counted as often as required.

SAM Section 8111.2 requires a change or petty cash count in accordance with the following schedule:

<u>Size of Fun</u>	<u>Frequency of Count</u>
\$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 the accounting technician responsible for auditing the funds makes timely unannounced visits to departments. However, fund custodians are not always available for the accounting technician to complete the count.

Internal control of cash funds is compromised when the accountability requirement is performed inconsistently and untimely.

Recommendation 4

We recommend that the campus ensure that cash counts of change funds occur as frequently as required.

Campus Response

We concur. San Jose State University has instituted a follow up process to ensure cash counts are completed within the time frame established by SAM Section 8111.2.

CHANGE/PETTY CASH FUND DOCUMENTATION

Change/petty cash funds were not properly documented in all instances.

We noted that: five change/petty cash fund authorization memos were not updated with the current custodian; three authorization memos were not signed by custodians evidencing responsibility; and, one authorization memo was not signed by the accounting officer.

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. Further, SAM Section 20003 requires a system of record-keeping procedures that provide effective accounting control over assets.

The revolving fund technician indicated that she is not always informed of changes in custodians by departments and that she routinely sends out authorization forms when she learns that custodians have changed. However, departments do not always respond.

Inadequate documentation of custodial responsibility with regard to change/petty cash funds both increases the risk of loss and reduces employee accountability.

Recommendation 5

We recommend that the campus properly document custodial responsibility with respect to all change/petty cash funds.

Campus Response

We concur. San Jose State University will implement a procedure to remind custodians of petty cash of their responsibilities. Further, we will follow up once a year to ensure records are current and accurate.

FIXED ASSETS

Fixed asset acquisitions were not always coded in the correct sub-account.

Two of the twelve fixed asset acquisitions we reviewed (both at a unit cost exceeding \$5,000) were miscoded in expense accounts. The property reconciliation process did not detect equipment that is erroneously miscoded in expense accounts.

Department of Finance Management Memo 95-22 requires the recording of property in capital accounts when acquisitions have a unit cost of at least \$5,000.

Campus procedures require requesting departments to submit a purchase requisition noting the account number to which the acquisitions will be charged. We were informed by the

director of logistical services that, although purchasing personnel is mindful of miscoding, they rely on campus departments to provide the correct coding.

Property incorrectly coded in expense accounts misstates the accounting records and does not assure that the item will be identified and tagged as a state asset.

Recommendation 6

We recommend that the campus establish procedures to prevent the recording of fixed assets in expense accounts.

Campus Response

We concur. We have established procedures and held training to make procurement staff aware of fixed assets subcodes and criteria to determine proper use of these subcodes.

TRUST ACCOUNTS

Trust account signature authorizations were not updated on a regular basis.

Six out of the ten trust agreements we reviewed were not updated to reflect changes in personnel authorized to make expenditures.

SAM Section 19440.1 requires trust documentation to include the names of those individuals authorized to make expenditures.

The associate controller indicated that trust accounting relies on campus departments to notify them of changes in authorized personnel.

The campus cannot be assured in all instances that only authorized expenditures are made from trust funds.

Recommendation 7

We recommend that the campus assure that all trust account signature authorizations are periodically updated.

Campus Response

We concur. We have implemented procedures to ensure timely updates to the trust account signature authorizations.

APPENDIX A: PERSONNEL CONTACTED

Name Title

Robert Caret	President
Tony Abrigo	Accounting Technician
Edmund Almazan	Accounts Receivable Supervisor
Marlene Anderson	Cashiering Manager
Wilma Babayan	Revolving Fund Technician
Jeff Baldwin	LAN Manager
Shawn Bibb	Associate Controller
Larry Bogan	Collections Supervisor
Jenny Chang	I/O Technician
Cleo Cuenca	Trust/Misc. Funds Accountant
Barbara Decker	Buyer
Rosemary Etheridge	Buyer
Barbara Green	Controller
Noemi Hinchbeger	Records Clerk, Public Safety
Jim Hill	Director Logistical Services
Cecelia Hoang	Lead Buyer
Pearl Howell	Associate Director Payroll
Don Kassing	Vice President for Administration
Dennis Kyne	Interim Director Administrative Computing
Kelly Lee	Lead Buyer
Norma Lorigo	Accounts Payable Manager
Barbara McClendon	Travel Coordinator
Linda Mobley	System Coordinator
Izabel Orahim	Cashier
Bobbie Patrick	Senior Secretary
Rita Peth	Lead Buyer
Evelyn Ribaya	General Fund Lottery Accountant
Paul Siegel	Accounting Director
Rich Sol	Interim Associate Vice President
Linda Vasquez	Director Student Financial Services
Carl Vigil	Interim Director Operations/CIC/Technical Services
Loretta Wyer	Senior Data Entry Operator

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.