

FISMA

SAN FRANCISCO STATE UNIVERSITY

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ABBREVIATIONS

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
ITS	Information Technology Systems
NSF	Non-Sufficient Funds
PO	Purchase Order
SAM	State Administrative Manual
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

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 recordings 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 July 1996 to February 1997. 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;

INTRODUCTION

- ▶ 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 Francisco State University from January 21, 1997 through March 7, 1997 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, could result in errors and irregularities. Primary areas requiring improvement in internal controls include cash receipts, accounts receivable, revolving fund, and fixed assets. 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.

CASH RECEIPTS

SATELLITE CASHIERING [6]

Cash collections within the student health center were not deposited intact or in a timely manner. Depositing cash collections intact and timely reduces campus exposure to loss from inappropriate acts and improves cash accountability.

WRITTEN CASH COLLECTION PROCEDURES-PARKING METERS [7]

The campus had not established written procedures for parking meter coin collections. Policies and procedures should be documented and communicated to employees to assure that internal controls are not compromised.

FEE RECONCILIATIONS [8]

The campus did not reconcile applications for admissions to fees received during 1995-96. This is a repeat finding from our prior FISMA audit. Reconciling fees reduces the risk of errors or misappropriation of fees going undetected.

ACCOUNTS RECEIVABLE [9]

The campus was not following up and collecting payroll receivables in a timely manner. This is a repeat finding from our prior FISMA audit. Ensuring timely follow-up and collection of payroll overpayments limits the potential for loss of revenue from uncollectable accounts and increases working capital

REVOLVING FUND

SALARY ADVANCES [9]

Salary advances were not cleared timely. This is a repeat finding from our prior FISMA audit. Clearing outstanding salary advances in a timely manner makes resources available for other campus usage.

TRAVEL ADVANCES [11]

Travel advances were not always cleared timely. Clearing outstanding travel advances in a timely manner makes resources available for other campus usage.

CHANGE FUNDS [11]

Independent cash counts of change funds were not occurring as often as required. This is a repeat finding from our prior FISMA audit. Timely and independent counts of change funds strengthens internal control over these funds.

FIXED ASSETS [12]

Existing procedures did not ensure timely removal of missing property from the inventory. Properly entering documentation of missing property timely results in a more accurate property inventory record and general ledger fixed asset account.

TRUST FUNDS [13]

Trust fund agreements were not always currently maintained. This is a repeat finding from our prior FISMA audit. Updating trust accounts to reflect changes in expenditure approval authority reduces the risk of loss or misuse of trust funds.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash collections within the student health center were not deposited intact or in a timely manner.

Incomplete Deposits

Eye Examinations. The health center medical services cashier collected fees from students for eye examinations and held these funds in the health center safe for direct payment to the optometrist after the services have been provided. These fees are never deposited in state or trust accounts maintained by the campus business office. The optometrist was not a state employee and operated independently of the campus.

Potential Non-Sufficient Fund (NSF) Checks. Student checks received in payment for medical services were occasionally withheld from deposit after receiving notice from students that their bank accounts lacked sufficient funds to cover the payment.

The student health center business manager stated that they managed eye examination fees as a service to both their students and the optometrist. She also indicated that potential NSF checks were held as a service to their students.

Untimely Deposits

The health center has established the practice of depositing its cash collections once per week regardless of the amount collected. We found the following weekly deposits of over \$5,000 during the period July 1996 through December 1996:

<u>Deposit Date</u>	<u>Deposit Amount</u>
7-12-96	\$5,393
7-18-96	5,235
8-29-96	5,478
9-13-96	7,627
10-4-96	6,431
10-9-96	8,062
11-15-96	5,213
12-20-96	6,563

SAM §8030.1 states in part:

Agencies that have safes, vaults, or money chests that are adequate to safeguard cash will accumulate collections until they amount to \$500 in cash or \$5,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks) whichever occurs first, except that accumulated collections totaling \$50 or more will not remain undeposited for more than fifteen working days.

The potential for cash collections to be lost or stolen increases during the period in which they are left undeposited.

Recommendation 1

We recommend that the campus health center:

- a. deposit all cash collections intact;
- b. follow prescribed cash collection procedures; and
- c. establish a contract with the optometrist so that fees and payments pass through a campus trust account.

Campus Response

We concur. In March 1997, Student Health Services began depositing cash collections daily instead of weekly. Potential non-sufficient fund (NSF) checks from students are no longer withheld from deposit at student request. Student Health Services is exploring offering other options to students with financial problems, such as an emergency short term loan through the Student Financial Aid Office or payment by credit card.

Student Health Services is negotiating changes in the contract with the optometrist so that either he will collect his own fees, or fees and payments will pass through a campus trust account. A revised contract with the optometrist should be in place by the end of August 1997.

WRITTEN CASH COLLECTION PROCEDURES-PARKING METERS

The campus had not established written procedures for parking meter coin collections.

SUAM §3821 states that the chief business officer of the campus is responsible for the collection of all funds collected for, or on behalf of, the university. It further states that the chief business officer shall establish control procedures to ensure that all monies due are collected and are safeguarded, deposited, reconciled, remitted, and invested in a timely manner.

The campus parking coordinator stated that she had not drafted procedures for the collection and accountability of funds collected from parking meters because of other work related priorities.

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

Recommendation 2

We recommend that the campus establish and disseminate written procedures for collection of funds from parking meters.

Campus Response

We concur. The parking Enforcement unit of the Department of Public Safety (University Police Department) will handle the collection of funds from parking meters. The Parking Enforcement Supervisor is preparing a written procedure which will be disseminated once it has been reviewed and approved by DPS, the Parking and Transportation Office, and Fiscal Affairs. The parking meter collection procedure should be approved and disseminated by the end of August 1997.

FEE RECONCILIATIONS

The campus did not reconcile applications for admissions to fees received during 1995-96. This is a repeat finding from our prior FISMA audit.

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 campus cashier stated that her staff was unable to prepare the applications fee reconciliation because data on applications processed was never forwarded to her from enrollment services.

By not reconciling fees, errors or misappropriation of funds may go undetected.

Recommendation 3

We recommend that the campus reconcile admission applications to application fees received.

Campus Response

We concur. Due to the nature of the application acceptance process, the University has relied on Enrollment Services to provide a fee reconciliation. Fiscal Affairs staff working with Enrollment Services will develop and implement a reconciliation of the admission applications received to application fees collected beginning with the 1997-98 fiscal year.

ACCOUNTS RECEIVABLE

The campus was not following up and collecting payroll receivables in a timely manner. This is a repeat finding from our prior FISMA audit. Payroll overpayments totaled \$79,864 as of January 1997.

SAM §8776.6 and §8776.7 require state agencies to develop collection procedures that will assure prompt follow up on accounts receivables. It further requires specific procedures to clear delinquent accounts.

The campus payroll officer stated that staffing workload and cutbacks had contributed to delays in following up and clearing payroll receivables.

Untimely follow-up and collection of payroll receivables contributes to nonpayment of some debts; it also reduces the amount of working capital available to the campus.

Recommendation 4

We recommend that the campus follow established procedures to collect payroll receivables.

Campus Response

We concur and have already implemented the following procedures to ensure compliance:

1. Each payroll receivable will be established immediately as a payroll deduction.
2. When a payroll receivable has been established, a letter will be sent to the employee explaining the reason for the payroll receivable and the payroll period/pay warrant from which the amount will be deducted.
3. The State Controller's Office Payroll Deduction Report which shows the amount deducted via payroll deduction will be monitored and reviewed by the Leave Accounting Payroll Technician. The Technician will also maintain a spreadsheet of all amounts collected via Agency Collection for those individuals no longer working for the University.
4. Plans are currently being developed with the Manager of Student Loan Collections to begin overseeing the collection process for payroll receivables in order to provide additional collection efforts and monitoring.

REVOLVING FUND

SALARY ADVANCES

Salary advances were not cleared timely. This is a repeat finding from our prior FISMA audit.

As of December 31, 1996, salary advances outstanding over ninety days totaled \$77,874, \$60,000 of which was more than 120 days old.

SUAM §3813 prescribes the circumstances in which salary advances may be made and further states that advances should be collected when the corrected or delayed warrant for the pay period involved is received. Generally, the time period for recovery of advances should not exceed sixty days.

The campus payroll officer stated that staffing workload and cutbacks had contributed to delays in following up and clearing salary advances.

When salary advances are not cleared timely, revolving fund monies are not available for other needed uses.

Recommendation 5

We recommend that the campus improve procedures to assure that salary advances are cleared in a timely manner.

Campus Response

We concur and have already implemented the following procedures to clear salary advances outstanding as of May 30, 1997:

1. Collection notices have been sent to all current and separated employees.
2. Direct deposit cancellations for any employee with an outstanding salary advance have been sent to the State Controller's Office in order that accounts receivable procedures can be implemented.
3. Payment plan arrangements have been made with those employees contacted for repayment of a salary advance.

Additional revisions to procedures and practices are also being implemented to control issuance and prompt clearance of salary advances in the future:

1. All requests for salary advances must be reviewed by the Director of Human Resources to ensure compliance with SAM 8595, SUAM 3813, and campus procedures.
2. The forms used to process salary advances have been revised.
3. No salary advance will be issued for employees on direct deposit. If necessary, the direct deposit will be cancelled so that an accounts receivable can be immediately implemented for a salary advance.
4. The Director of Human Resources is developing plans with the Office of Student Loan Collections to begin overseeing the collection process for outstanding salary advances.
5. The Director of Human Resources now receives a Salary Advance Aging Report and a status report on each salary advance on a monthly basis. The status report is forwarded to the Vice President for Business and Finance.

TRAVEL ADVANCES

Travel advances were not always cleared timely.

Travel advance records showed the following amounts outstanding over thirty days:

Length of time Outstanding	Amount Advanced
31 to 60 days	\$ 21,236
61 to 90 days	12,058
Over 90 days	<u>20,861</u>
Total	\$ 54,155

SAM §8116.2 requires the submittal of a properly prepared travel expense claim (TEC) to substantiate travel expenses as soon as possible after the trip(s) or at least once a month.

The travel coordinator indicated that the campus has not always fully complied with travel advance policies and procedures; and that the policy needed to be reemphasized to the campus community.

When travel advances are not cleared timely, revolving fund monies are not available for other needed uses.

Recommendation 6

We recommend that the campus improve procedures to assure all that travel advances are cleared in a timely manner.

Campus Response

We concur. Subsequent to the audit, the University's Payroll Office staff working with the Campus Travel Coordinator increased their efforts to collect outstanding travel advances with much success. These efforts (using threatened or actual deductions from pay checks) will continue as a matter of course. In Fall 1997, the Controller will issue a memorandum to reemphasize travel advance policies and procedures to the campus community.

CHANGE FUNDS

Independent cash counts of change funds were not occurring as often as required. This is a repeat finding from our prior FISMA audit.

During the first six months of the 1996-97 fiscal year, two change funds in excess of \$500 were not counted monthly as required.

SAM §8111.2 states that an employee other than the custodian of the change or petty cash fund will count it in accordance with the following schedule and report the count to the accounting officer.

<u>Size of Fund</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, DOF

The manager of governmental accounting stated that staffing duties and lack of available staff time affected the frequency of independent cash counts.

Internal control over change funds is compromised when timely, independent cash counts are not enforced.

Recommendation 7

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

Campus Response

We concur. Procedures will be immediately implemented to insure cash counts occur as often as required.

FIXED ASSETS

Existing procedures did not ensure timely removal of missing property from the inventory.

A number of property items reported as missing in the last physical inventory of May 1994 were still included on the campus inventory records as missing property as of March 7, 1997.

SAM §8652 states:

departments will make a physical count of all property and reconcile the count with accounting records at least once every three years. . . Adjustments and reconciliations will take place after the physical count has been completed.

The property clerk stated that campus departments do not always respond to inquiries about missing property and that he does not have the staff needed to track the large number of missing property items.

Failure to properly document missing property timely results in an overstatement in both the property inventory records and the general ledger fixed asset account.

Recommendation 8

We recommend that the campus establish and enforce procedures to remove missing property from the campus inventory in a timely manner.

Campus Response

We concur and will endeavor to implement this recommendation. The Controller working with the University's Property Board has begun developing policies and procedures to implement this recommendation in Fall 1997. These new policies and procedures will be conveyed to the campus community by the Controller in the Fall and aggressively enforced by the University Property Board.

TRUST FUNDS

Trust fund agreements were not always currently maintained. This is a repeat finding from our prior FISMA audit.

Seven of twenty trust disbursement transactions reviewed contained different expenditure authorization signatures from that shown on the trust agreement. In addition, there was one missing trust agreement.

SAM §19440.1 requires trust accounts to be supported by documentation showing persons authorized to withdraw or expend trust funds and specimen signatures until the trust is dissolved.

The accounting manager for trust and project accounts stated that notifications involving changes in individuals authorized to expend funds from these accounts were not always forwarded to the accounting office.

By not updating trust accounts to reflect changes in expenditure authority, the risk of loss or misuse of trust and project funds is increased.

Recommendation 9

We recommend that the campus obtain the required supporting documentation for all trust accounts

Campus Response

We concur. Internal procedures will be developed and implemented to ensure no expenditures are made against a trust or project account without the required supporting signature documentation on file. All accounts will be reviewed in August 1997 for proper supporting signature documentation. Notices will be sent by the Controller to campus personnel whose accounts have incomplete or out-of-date documentation.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Robert A. Corrigan	President
Jan Andreasen	Associate Director, Housing
Bonifacio Bitonio	Accountant
Richard Chen	Trust & Project Accountant
Kevin Collins	Property Clerk
Renee' Dupee	Payroll Officer
Anne Dutriz	Travel Coordinator
Denise Fox	Director, Human Resources
Lily Gee	Parking Coordinator
Robert Maples	Systems Analyst, Admissions and Records
Juliet Olson	Business Manager, Student Health Center
Jose Sampang	Accountant, Accounts Receivable
Don Scoble	Vice President, Business and Finance
Michael Penders	Registrar
Don Smalley	Purchasing Coordinator
Richard Uchida	Business Manager, Library
Jim Van Ness	Internal Auditor
Anne Velez	Supervisor, Accounts Payable
Larry Ware	Controller
Burkland Wong	Manager, Revenue Funds and Trust & Project Accounting
Cora Wong	Burser
Armando Ysip	Manager, Governmental Funds Accounting

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.

APPENDIX B

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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.