

FISMA
CALIFORNIA STATE UNIVERSITY,
CHICO

Report Number 98-03
June 25, 1998

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

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

INTRODUCTION

PURPOSE

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

- ▶ cash receipts are processed in accordance with laws, regulations and management 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 policy;
- ▶ cash disbursements are properly authorized and 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 access to payroll/personnel 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 that required annualized data, fiscal year 1996-97 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 1997 to March 1998. Our primary focus was on internal controls, and 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;

INTRODUCTION

- ▶ 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
- ▶ establishment of trust funds, separate accounting, adequate agreements, and annual budget.

We have not performed additional 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 make recommendations in areas requiring 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. The Office of the University Auditor of the CSU is 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 Chico from February 2, 1998 through March 19, 1998 and audited the internal control structure in effect at that time.

In accordance with 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 remain undetected. In addition, projection of any evaluation of systems to future periods is subject to risk, inasmuch as 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 certain conditions which, in our opinion, if not corrected could result in errors and irregularities. Specifically, the campus does not maintain adequate internal control over fixed assets, information systems, and trust accounts. These areas are discussed in the Executive Summary and body of the report.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in this report.

FIXED ASSETS

PROPERTY SURVEY BOARD [5]

The campus Property Survey Board was not determining appropriate disposition of state property. Establishing a property survey board assures more objective decisions involving the disposition of state property.

MISSING PROPERTY [5]

Campus departments, programs and operating units were not responding to inventory exception reports timely. Prompt responses to inventory exception reports increase the accuracy of the campus property inventory and general ledger fixed assets accounting records.

INFORMATION SYSTEMS

FIRE SUPPRESSION SYSTEM [6]

The campus did not have an operational fire suppression system in its computer center. Having easy access to a fire suppression system may reduce the risk of loss of computing equipment as a result of fire damage.

ALTERNATE SITE PROCESSING [7]

The campus had not made formal written arrangements for an alternate computer-processing site. Securing such a site helps to ensure that, with minimal service interruption, the campus is able to restore and resume computer operations after a disaster.

INFORMATION SYSTEMS MONITORING [7]

There were no formal monitoring procedures in place for job failures and reruns, downtime, and IT service levels. Developing formal monitoring procedures for information systems output reduces the risk of delays, backlogs, and accounting inaccuracies.

TRUST ACCOUNTS

POLICIES, PROCEDURES, AND SUPPORTING DOCUMENTATION [8]

The campus had not established written trust account policies and procedures. Trust agreements were not adequately documented. Establishing written policies and procedures strengthens internal controls and reduces the risk of improper transactions.

INVESTMENT EARNINGS [9]

The campus did not provide written notification to trust account donors and holders of its practice of withholding earnings from investments. Monitoring maximum charges and providing written notification of the campus investment earnings distribution policy reduces the potential for both overcharges and misunderstandings.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

FIXED ASSETS

PROPERTY SURVEY BOARD

The campus Property Survey Board was not determining appropriate disposition of state property. At the time of our review, there were no officially appointed Property Survey Board members.

SAM §3520.2 states that each agency will have a duly appointed Property Survey Board responsible for determining whether the best interest of the State is served in disposing of State property. To the extent possible, there will be a sufficient number of members on the Board to ensure that both business management and program responsibilities are represented. At least two members of the Board will approve all Property Survey Reports and Transfer of Location of Equipment documents.

The property clerk stated that the campus had a property survey board for many years. However, as board members left, they were not replaced. Eventually, property management assumed the duties of the board including approval of property survey reports.

Without a duly appointed property survey board, the campus cannot be assured that the best interest of the State is served in disposing of surveyed property.

Recommendation 1

We recommend that the campus establish a property survey board.

Campus Response

The campus concurs. A property survey board will be appointed by October 1, 1998 to actively determine appropriate disposition of state property.

MISSING PROPERTY

Campus departments, programs and operating units were not responding to inventory exception reports timely. Property items not found during the inventory count process were designated as missing.

A total of 84 inventory exception reports had been sent to campus departments indicating discrepancies between the inventory and department property records. At the time of our review, only 50 of the inventory exception reports had been returned to the property office.

SAM §8652 states that inventory adjustments will take place after the physical count has been completed.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control includes a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenue, and expenditures.

The property clerk stated that he experienced difficulties in getting departments to answer and return the inventory exception reports to him in a timely manner. He further stated that he surveys missing property items after two years.

Missing property reports may be indicative of security control weaknesses and if this deficiency is not strengthened, the issue of missing property items may persist.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that departments complete and return inventory exception report items to the property office in a timely manner.

Campus Response

The campus concurs with this recommendation. Procedures will be established by October 1, 1998 to ensure a more timely and complete response by departments to inventory exception reports.

INFORMATION SYSTEMS

FIRE SUPPRESSION SYSTEM

The campus did not have an operational fire suppression system in its computer center.

The director of new technology and process mapping stated that the campus had a fire suppression system installed in the computer center, but it was decommissioned for environmental reasons and never replaced.

In the event of fire, a fire suppression system would reduce: (1) the extent of loss of computing equipment and; (2) the length of time operations are disrupted.

Recommendation 3

We recommend that the campus evaluate the feasibility of reactivating or installing an automatic fire suppression system in the computer center.

Campus Response

As stated during the audit, the campus feels that reactivating the existing system or installing a new fire suppression system is not feasible due to the existence of asbestos in the computer center building

(Butte Hall). Access to the ceiling panels, which contain asbestos, prevents the campus from reinstalling the fire suppression system at this time. However, the campus will evaluate the feasibility of installing or reactivating a fire suppression system in the computer center as part of the campus five-year Major Capital Outlay Plan. Butte Hall is scheduled for funding in year 1999-00. Included in this project is the removal of asbestos, new lighting, and fire code modifications.

ALTERNATE SITE PROCESSING

The campus had not made formal written arrangements for an alternate computer-processing site.

The campus Information Technology (IT) disaster recovery plan provides for the identification of an alternate computing site, should the computer center hardware fail to operate or be destroyed.

The director of computing services stated that, in an attempt to identify an alternate mainframe-computing site, preliminary discussions among internal campus management have taken place. However, such discussions have not elevated to a level where negotiations and formal written agreements for services have occurred.

Failure to obtain a formal written commitment ensuring the availability and compatibility of an alternate computer-processing site exposes the campus to the risk of extended downtime after a disaster.

Recommendation 4

We recommend that the campus evaluate the need for a formal written agreement for alternate site information processing.

Campus Response

The campus will proceed in its efforts to locate a feasible alternate computer processing site as part of the new collaborative management system (CMS) scheduled for implementation next year.

INFORMATION SYSTEMS MONITORING

There were no formal monitoring procedures in place for job failures and reruns, downtime, and IT service levels.

The director of technology and process mapping stated that there were no output controls to monitor processing problems and failures. He further stated that it is the responsibility of the end user to apprise the department of individual problems with the system. The campus is currently testing a program on a limited basis that would give notice, via e-mail, to the user department when job-processing problems occur.

Processing delays, backlogs, and accounting inaccuracies may occur if job failures, partial failures, reruns, and delays are not monitored.

Recommendation 5

We recommend that the campus continue its efforts to improve information systems monitoring procedures.

Campus Response

The campus will continue to test the program that provides automated email notification to user departments upon the occurrence of job failures.

TRUST ACCOUNTS

POLICIES, PROCEDURES AND SUPPORTING DOCUMENTATION

The campus had not established written trust account policies and procedures. In addition, trust agreements were not adequately documented.

We reviewed ten trust agreements and found the following:

- Nine agreements lacked documentation on the disposition of unexpended funds and instructions for closing the accounts;
- Eight of the nine agreements lacked documentation on the use of funds for administrative or overhead costs;
- Five of the nine agreements did not have documented time constraints; and
- One agreement did not contain a purpose statement.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include an established system of practices to be followed in performance of duties and functions in each of the state agencies.

SAM §19440 states that each trust account established shall be supported by documentation as to the type of trust donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of monies for administrative or overhead costs.

The director of accounting operations stated that there has never been a written policy on opening and operating trust accounts and that it is a campus practice to contact the accounting office before a trust account can be established. She also agreed that the trust form needed updating.

When policies and procedures are not in writing, misunderstandings and improper transactions may occur.

Recommendation 6

We recommend that the campus:

- (a) establish written policies and procedures for opening and operating trust accounts; and
- (b) obtain adequate supporting documentation for all trust accounts.

Campus Response

The campus does have written documentation on many trust agreements, but we do concur that updated policies and procedures are needed and will be put in place. The campus will develop documentation to ensure its compliance in this area by December 31, 1998.

INVESTMENT EARNINGS

Campus procedures related to both written notification to trust account holders of its practice of withholding earnings from investments and monitoring maximum charges were in need of improvement.

Trust accounts not charged an administrative fee had their investment earnings withheld by the campus to cover accounting and management service costs.

In addition, excessive fees were charged against one trust account.

We found the following:

Accounting Office—administrative fees of 4% (\$13,109) were charged to the Auxiliary Health trust account in 1996-97. The purpose of these fees was for reimbursement of cash management and accounting-related costs.

Student Affairs—interest earnings (\$14,613) were withheld from the Auxiliary Health trust account in 1996-97. The purpose of withheld earnings was for reimbursement of program service costs provided to the trust account.

Administrative fees and withheld interest exceeded 8% of the Auxiliary Health trust account collections for 1996-97.

SUAM §3824 states, in part, that:

The campus President may define the rules for distribution of interest income, except where interest income is defined in instruments such as a bond resolution, trust project agreements, and federal funding contracts. An administrative charge may be assessed for the direct cost of the cash management functions consistent with any limitations, including the President's definition.

Joint Chancellor's office letter BP 79-74/SA 79-79 limits the amount campuses may be reimbursed for costs incurred in the accounting and distribution of health services fees to 8% of collections.

The director of accounting operations stated that each trust account holder was aware of the fact that investment earnings were withheld when administrative fees were not charged. In the instance where an administrative fee was charged and investment earnings were withheld, the director of accounting operations and the vice president of student affairs stated that the funds were needed to cover program and management services costs.

Not notifying trust account managers of the campus investment earning distribution policy may result in improper withholding of earnings. Not monitoring cumulative reimbursement charges such as management fees and withheld interest can result in overcharges.

Recommendation 7

We recommend that the campus:

- (1) provide written notification to trust account holders of its practice of withholding investment earnings when no administrative fee is charged; and
- (2) strengthen existing procedures to assure that cumulative reimbursements (management fees and withheld interest) do not exceed the maximum rate.

Campus Response

Although it has been the long-standing policy of the campus to withhold interest of trust funds in lieu of charging an administrative fee, this policy will be formalized with written documentation. The campus will establish procedures by December 31, 1998 to verify that cumulative charges do not exceed the maximum allowable per system wide policy.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Manuel A. Esteban	President
Miles Allen	Director of New Technology Process Mapping
Tom Beckman	Director, Student Health Center
Andi Beach	Payroll Technician
Jan Burnham	Director of Student Financial Services
Richard Chamberlain	Supervisor, Cash Management
Cindy Cleland	Director of Accounting Operations
Cindy Collinsworth	Payroll Director
Marcia Cooper	Accounting Technician
Patty Darr	Accounting Technician
Dennis Frazier	Director of Human Resources
Carolyn Galloway	Buyer
Dennis Graham	Vice President for Business and Finance
Jeanie Graham	Library Circulation Supervisor
Deborah Gott	Pharmacist in Charge
Pattie Hannemann	Director of Procurement Services
Charlie Harliss	Director of Warehouse Operations
Kathi Hiatt	Registration, Public Service, and Veteran Affairs Supervisor
Barbara Holt	Accounts Payable Supervisor
Michelle Korte	Director of Audits and External Reporting
Beverly Langston	Accounting Technician
Debbie McElroberts	Director of Computing Services
Mike Minard	Director of Public Safety
Paul Moore	Vice President for University Advancement and Student Affairs
Paula Powell	Registration Supervisor
Stephanie Yule-Rist	Director, Financial Aid Business Office
K. G. Sheley	Accounting Technician
Don Sleeper	Manager Custodian and Support Services
Wayne Thornton	Records Supervisor, University Police Department
Gilbert Tyrrell	Property Clerk
George Wellman	Director of Financial Services
Connie Zimmerman	Contracting Supervisor

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.