

FISMA

**CALIFORNIA STATE UNIVERSITY,
SACRAMENTO**

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ABBREVIATIONS

CSU	California State University
CSUS	California State University Sacramento
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SUAM	State University Administrative Manual
FRS	Financial Reporting System
SIS	Student Information System
UPS	Uninterruptible Power Supply

INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems that ensure 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 assets are promptly recorded 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 1997-98 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 November 1997 through April 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;
- ▶ 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 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 any auditing procedures beyond the date of this 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 state agencies to 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 currently responsible for conducting such audits of internal accounting and administrative control within the CSU. This report represents our biennial review.

OPINION

We visited the CSU Sacramento from May 4, 1998, through June 26, 1998, 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 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*.)

With the exception of 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 procedure 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 this report.

CASH RECEIPTS [5]

Checks received in admissions were not always endorsed and/or properly secured. Adequately controlling cash receipts reduces campus exposure to loss from inappropriate acts.

CASH DISBURSEMENTS [5]

Checks that were outstanding for a period in excess of two years and warrants that were undeliverable in excess of 90 days were not canceled/remitted to the State Special Deposit Fund timely. Cancelling and remitting long outstanding checks and undeliverable warrants to the Special Deposit Fund reduces both the possibility for misclassified amounts and the effort required to account for these outstanding items on reconciliations.

FISCAL IT [6]

The campus uninterruptable power supply (UPS) system does not have the capability to maintain continued electrical power for a definite period of time in computer services. Improving the campus UPS system reduces the risk of power fluctuations or failures that disrupt computer operations and damage computer data.

TRUST ACCOUNTS [7]

Trust individuals other than those with signatory approval were approving account expenditures. Ensuring that trust fund expenditures are approved by individuals designated in the trust fund documents reduces the risk of inappropriate expenditures.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Checks received in admissions were not always endorsed and/or properly secured. The campus returned application fees to payees in situations where they could not accommodate the applicant. The checks were neither endorsed nor deposited; they remained unsecured on desks or in unlocked areas prior to their processing and return.

SAM §8023 requires that all checks, money orders, and warrants received for deposit be restrictively endorsed for deposit as soon as practicable after receipt, but no later than the end of the working day.

SAM §20003 requires the campus to develop internal controls that limit access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties.

The admissions supervisor stated that checks to be returned were given second priority for processing; they did not realize the necessity to secure them in the interim.

Inadequately controlling checks increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus develop and implement procedures regarding the control and security of cash receipts designated for return to payees.

Campus Response

The campus concurs with the need to enhance the control of cash receipts designated for return to payees. We will reinforce with the relevant units the need to comply with existing procedures for endorsing and securing these items. We anticipate having these changes in place by the end of September.

CASH DISBURSEMENTS

Checks that were outstanding for a period in excess of two years and warrants that were undeliverable in excess of 90 days were not canceled/remitted to the State Special Deposit Fund timely.

The outstanding checks and warrants were as follows:

	> 90 Days	> 1 Year	> 2 Years
Outstanding Checks	N/A	9,372.69	2,404.19
Undeliverable Warrants	3,324.50	1451.13	106.00

SAM §8042 states that whenever general cash and revolving fund checks are outstanding over two years, they will be cancelled and the amount of such checks will be remitted to the Special Deposit Fund as unclaimed monies.

SAM 8580.5 states that salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll offices. Warrants not delivered within 90 calendar days of receipt must be returned to the State Controller's Office for monthly deposit in the special deposit fund.

The accounts payable (A/P) supervisor explained that remitting monies to the Special Deposit Fund required communication between A/P, the payroll department and the accountant responsible for remitting the funds. However, consistent communication between these offices was not occurring.

Not canceling or remitting long outstanding checks and warrants timely to the Special Deposit Fund could result in reversion to the general fund and require additional effort to review outstanding checks and warrants during the reconciliation process.

Recommendation 2

We recommend that the campus strengthen existing procedures to ensure that:

- general and revolving fund checks unclaimed for more than two years are cancelled and the amount of such checks remitted to the Special Deposit Fund as unclaimed monies and;
- warrants not delivered within 90 calendar days of receipt are returned for deposit in the Special Deposit Fund.

Campus Response

We concur with the need to strengthen our monitoring processes for undelivered and outstanding checks. We will remind all Payroll Warrant Officers of the regulatory requirements for undelivered checks and monitor their compliance. We have also reinforced the need to cancel checks outstanding more than two years. These corrective actions have already been completed.

FISCAL IT

The campus uninterruptable power supply (UPS) system does not have the capability to maintain continued electrical power for a definite period of time in computer services.

The current system is restricted to only 20 to 30 minutes, which allows for turning off computer services only.

Current and increasing computer resources require the need for a continuous power supply during power outages caused by extreme weather conditions and brownouts.

Additionally, a continuous power supply would ensure that compliance is met with existing disaster recovery planning policies, as outlined in SAM 4843 and the CSUS disaster recovery plan.

The director of university computing stated that he has made a proposal to acquire a generator but, to date, has not received an approval.

Power fluctuations or failure can disrupt computer operations and damage computer data.

Recommendation 3

We recommend that the campus acquire a suitable generator to ensure that computer services and users can continue projects during most outages without interruptions or delays.

Campus Response

We concur with the need to acquire a back-up generator. University Computing and Communications Services (UCCS) will purchase this equipment as soon as funds can be identified. If they can not fund this purchase in the current year, they will fund it from next year's allocations.

TRUST ACCOUNTS

Trust account expenditures were being approved by individuals other than those with signatory approval. Our review indicated the following:

- Eleven out of the twenty trust expenditures we reviewed were approved on-line via the Financial Records System purchasing system. None of these eleven expenditures were authorized by the individuals listed in the applicable trust agreements.
- Trust account signature authorizations were not updated on a regular basis.

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

The Associate VP for Finance indicated that it would not be cost effective to develop a control mechanism within the FRS Purchasing System to ensure that the person authorized to expend funds for a specific trust account is the exact person identified on the trust agreement.

Not ensuring that trust fund expenditures are approved by individuals designated in the trust fund documents increases the risk of inappropriate expenditures.

Recommendation 4

We recommend that the campus ensure that trust account expenditures are approved by only those individuals authorized in the trust fund documents.

Campus Response

We concur with the need to ensure those approving purchase requisitions charged to trust accounts are in fact authorized to do so. We will revise our trust specifications such that this authority is granted to those empowered to expend appropriated funds. We anticipate having this completed by the end of the fiscal year.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Dr. Donald R. Gerth	President
Denny Allison	Property Clerk
Linda Beilby	Assistant Director, Health Center
Donna Brougher	Accounting Manager
Michael Cooling	Manager, Operating Systems and Networks
Justine Crossno	Supervisor, Auxiliary Accounting
Monica Flood	Production Specialist
Dawn Flores	Accounting Tech I
Danny Fong	Payroll Manager
David Hill	Director, University Computing
Karyn Hinnebusch	Accountant I
Rhonda Rios Kravitz	Access Services Librarian
Clint Lee	Business Systems Coordinator
Jim Lindburg	Travel Coordinator
Tomas Lopez	Property Supervisor
Kathi McCoy	Management Auditor
Teresa Mills	Accounts Payable Supervisor
Nancy Nelson	Admissions and Records Supervisor
Nicole Novaresi	Library Cashier
Karen Peterson	Cashiering Services Supervisor
Rosemary Quinn	University Accounting Supervisor
Dan Restaino	Library Lead Cashier
Lynda Reposa	Billing Supervisor
David Shannon	Purchasing Manager
Gabrielle Self	Accounts Receivable Supervisor
Jon Self	Acting Associate VP of Finance
Barbara Stephens	Head of Circulation Unit
Jeff Williams	Receiving Warehouse Storekeeper
Russell Wyatt	Research Coordinatt

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.