

FISMA

SONOMA STATE UNIVERSITY

**Report Number 99-01
June 17, 1999**

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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
TEC	Travel Expense Claim
Y2K	Year 2000

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 policies;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management policies;
- ▶ revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies;
- ▶ cash disbursements are properly authorized and are 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 personnel and payroll 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 July 1998 to February 1999. 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 establishment 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 bank reconciliations;
- ▶ 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 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. The Office of the University Auditor of the CSU is currently responsible for conducting such audits within the CSU. This report represents our biennial review.

OPINION

We visited Sonoma State University from February 1, 1999 through March 26, 1999 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, 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*.)

We found that, except for the items noted in the Executive Summary and in the detail of the report, internal controls, within the scope of our review, were in place and functioning adequately. In addition, 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 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]

Facilities for safeguarding cash receipts within the athletics department and health center were inadequate. The issue involving the health center is a repeat finding from our prior FISMA audit. Adequately safeguarding cash receipts reduces the risk of funds being misappropriated.

FIXED ASSETS [6]

For the period July 1, 1996 to June 30, 1998, the campus was unable to account for property valued at \$576,318. Adequately controlling fixed assets increases proper accountability and reduces the risk of assets being misappropriated.

INFORMATION TECHNOLOGY [7]

The campus network technology is not year 2000 (Y2K) compliant. Becoming Y2K compliant will reduce the risk of lost network communications, which in turn affects access to financial and student record databases.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Facilities for safeguarding cash receipts within the athletics department and health center were inadequate.

Athletics Department

The athletics department did not have a safe or vault for the safekeeping of large sums of cash and checks from athletic events. Cash collections were secured in a locked cabinet. For 1997-98, cash collections totaled \$176,000. Athletic events were generally held on weekends, and cash collections were held two to three days before being forwarded to the campus cashiering office. We noted the following amounts collected at three athletic events held during January and February 1999:

Event Collections

<u>Event Date</u>	<u>Amount Collected</u>	<u>Date of Deposit</u>
1/15&16/99	\$3,332.40	1/21/99
1/29/99	5,485.82	2/2/99
2/20/99	2,238.25	2/22 & 24/99

SAM § 8032.1 states that agencies that do not have a safe, vault, or money chest that is adequate to safeguard cash will accumulate collections until they amount to \$250 in cash or \$10,000 in cash, checks, money orders, and warrants...whichever occurs first.

The controller stated that prior to our review, campus accounting office staff had assessed the adequacy of the facilities for the safeguarding of cash within the athletics department and determined that a safe was needed. However, at the time our review, the athletic department had not purchased a safe.

Health Center

The health center did not maintain a written record of persons knowing the combination to the safe located in the pharmacy and the date the combination was last changed. This is a repeat finding from our prior FISMA audit report.

SAM § 8024 states that records will be kept of the names of persons knowing the combination and the date the combination last was changed for safes and vaults housing cash or valuables.

The medical director stated that she was not aware of the prior audit report finding. Additionally, she stated that compensating controls, such as changes in key access and an alarm code security system,

were in place. She felt that this eliminated the need to document the dates of combination changes to the safe and persons having the combination.

Inadequate safeguarding of cash receipts increases the risk of funds being misappropriated.

Recommendation 1

We recommend that the campus:

- a. strengthen controls over cash receipts at applicable satellite cash collection sites; and,
- b. establish procedures to document the date the combination to the safe/vaults was last changed and the names of persons authorized to have the combinations.

Campus Response

Sonoma State University agrees with the finding and recommendation. As of August 2, 1999, we have taken the following actions;

1. A safe was acquired and installed in the Athletic department.
2. Combination to the Health Center safe has been changed.
3. Both unit custodians were reminded of SSU's financial policy to change safe combinations at least once every 12 months and upon a change in personnel who have access.

The above actions correct the condition and closes the finding.

FIXED ASSETS

For the period July 1, 1996 to June 30, 1998, the campus was unable to account for property valued at \$576,318.

Property items not found during the physical inventory count conducted by the property office are designated as missing on the campus inventory. Following the physical inventory count, an exception report is forwarded to campus departments that were unable to account for property under their custodianship. The departments were directed to notify the property office if any unaccounted for items were found. All property designated as missing on the campus inventory is surveyed after two years.

SAM § 8640 and 8643 state that property survey reports, STD. 152 will be prepared when disposal of property occurs and whenever property is lost, stolen, or destroyed.

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.

When property is disposed of or transferred, campus procedures require the preparation of a property transfer/survey form by department property custodians. When temporary loans of property occur, campus procedures require a property check out request form.

The controller and property manager stated that documentation was not always prepared and transmitted to the property manager to assure proper inventory accounting.

Inadequate control over fixed assets decreases required accountability and increases the risk of assets being misappropriated.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that the property manager is notified timely when property is removed from service, lost/stolen or transferred to a different campus location.

Campus Response

Sonoma State University agrees with the finding and recommendation. As of August 5, 1999, we have taken the following actions;

1. With respect to the specific audit condition noted, property survey forms were fully completed, signed by the Survey Board, and recorded on April 1, 1999.
2. On June 1, 1999, a communication was distributed to the University Controller requiring that property survey documents be initiated and recorded within 90 days of the completed inventory date for fixed assets and memo property items.

The above actions correct the condition and closes the finding.

INFORMATION TECHNOLOGY

The campus network technology is not Year 2000 (Y2K) compliant.

Executive Order W-163-97, signed by the Governor on October 3, 1997, requires state agencies to find and fix Year 2000 problems in its essential systems and to protect its essential systems from corruption by other systems, which are not Year 2000 compliant.

The senior director of information technology stated that he has requested funding from the vice president of administration and finance to make technology updates. However, no funding had been provided at the time of our review.

Not ensuring timely Y2K compliance will result in loss of network communication and loss of access to critical campus databases.

Recommendation 3

We recommend that the campus strengthen its efforts to ensure there is timely Y2K compliance of their automated systems.

Campus Response

Sonoma State University agrees with the finding and recommendation. The principle condition prompting this recommendation is the state of SSU's local talk area network. We have implemented a plan to replace those areas with Y2K compliant network equipment on or before December 31, 1999.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Ruben Arminana	President
Margo Axsom	Acting Registrar
Marlene Bles	Administrative Manager, Athletics
Drew Callendrella	Vice President, Student Academic Services
Mitchell Cox	Assistant Director of Athletics
Letitia Coate	Controller
George Ellington	Sergeant, Department of Public Safety
Laurence Furukawa-Schlereth	Vice President, Administration and Finance
Bill Fusco	Director of Athletics
William Ingles	Associate Controller/Treasurer, Financial Services
Linda Irving	Staff Assistant to the President
Niki Jorgensen	Health Services Assistant
Allan Klotz	Pharmacist
Mary Mansi	Director, University Accounting
Linda Mikowicz	Buyer
Cindy Miller	Lead Accountant
Edna Nakamoto	Senior Director, Human Resources
Steven Nanks	Receiving Materials Handler
Jerry Norris	Fixed Asset Accountant/Property Manager
Gloria Ogg	Senior Director, Customer Service
Sandy Ratliff	Admin Manager, Enrollment and Student Services
Floyd Ross	Managing Director, Center for Performing Arts
Paul Santini	Director, Receipts, Accounts Receivable, and Financial Aid
Samuel Scalise	Senior Director, Information Technology
Georgia Schwartz	Medical Director, Student Health Center
Mary Trimble	Accounting Technician
Jean Weisheitinger	Supervisor, Accounts Receivable
Steven Wilson	Associate Vice President, Admin & Fin
Mary Wood	Director, Compensation and Human Services

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.