

**FISMA**

**HUMBOLDT STATE UNIVERSITY**

**Report Number 00-10**

**July 23, 2001**

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## **ABBREVIATIONS**

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

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## INTRODUCTION

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### PURPOSE

The principal audit objective was to assess the adequacy of controls and systems to ensure 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 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 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.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

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### 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 1999-2000 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 June 2000 to February 2001.

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 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 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.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

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.

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## **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 California State University (CSU) is currently responsible for conducting such audits within the CSU.

This report represents our biennial review.

## OPINION

We visited the Humboldt State University campus from January 8, 2001, through February 2, 2001, and made a study and evaluation of the accounting and administrative control in effect as of February 2, 2001. Our study and evaluation were conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

Humboldt State University's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Assets are safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- ▶ Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.

Our study and evaluation revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate control over the following areas: purchase returns and preauthorization of overtime. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report.

In our opinion, except for the effect of the weaknesses described above, Humboldt State University's accounting and administrative control in effect as of February 2, 2001, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

## **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.

### **PAYROLL/PERSONNEL [5]**

Current procedures for the preauthorization of overtime in the plant operations department were not adequate. Implementing proper procedures for overtime work reduces the risk of unnecessary and/or unpaid work shifts.

### **PURCHASING [6]**

There were no written procedures for handling purchase returns. Documenting purchase return procedures in writing improves processing and handling by reducing the potential for errors or delays.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **PAYROLL/PERSONNEL**

Current procedures for the preauthorization of overtime in the plant operations department were not adequate.

We found that 3 of the 15 items in our sample selection of overtime payments during 1999-2000 did not contain the required preauthorization from a designated supervisor for work completed by plant operations personnel. This is a repeat finding from our prior FISMA audit.

State Administrative Manual (SAM) §8540 requires that overtime should be based upon prior written approval signed by a designated supervisor.

The director of fiscal affairs indicated that campus departments were reminded of the requirement to preauthorize overtime by directive from her office, but it was difficult to monitor since the supporting documentation remained in the department.

When written preauthorization of overtime is not obtained, there is increased risk of unnecessary and/or unpaid work shifts.

#### **Recommendation 1**

We recommend that the campus strengthen procedures to ensure that all overtime work is preauthorized.

#### **Campus Response**

We concur.

Campus departments will be notified at least once annually at the beginning of fall semester that all overtime work must be authorized in writing in advance of the work being performed. In cases where this is impractical due to emergency situations, approval will be retroactive. Because this written preauthorization is subject to audit, the notification will stress the importance of maintaining this documentation on file in the department.

The Director of Plant Operations was contacted directly to affirm future compliance with this requirement. Plant Operations devised a form for Plant Operations personnel to use to preauthorize overtime. On August 2, 2001, the Director of Plant Operations met with Plant Operations personnel to review the process and requirements.

In addition the supervisor's certification statement on the University's Overtime and Call Back Hours Report (PR32) has been revised and strengthened to acknowledge supervisorial compliance with the requirement for maintaining written preauthorization documentation on file in the employing department. The revised form is in place and will be required for all overtime compensation effective with the August 2001 pay period.

## **PURCHASING**

There were no written procedures for handling purchase returns.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative control shall include, but not be limited to, an established system of practices to be followed in performance of duties and functions in each of the state agencies.

The supervisor of distributions services stated that written procedures had not been developed since the receiving staff is extensively trained in all phases of distribution services, and should one staff person encounter a problem, other staff is available to provide assistance.

Without written purchase return procedures, delays in processing can occur caused by errors in handling and/or documentation.

### **Recommendation 2**

We recommend that the campus establish written procedures for purchase returns.

### **Campus Response**

We concur.

A written procedure for handling purchase returns has been developed by the Supervisor of Distribution Services.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Alistair W. McCrone	President
Don A. Christensen	Vice President, Development and Administrative Services
Sandra Fedder	Payroll Officer
Richard Giacolini	Director, Contracts, Procurement and Risk Management
Katherine Granfield	Systems Analyst, Fiscal Affairs
Doris Gunther	Supervisor, Accounting/Accounts Payable
Connie Higgins	Supervisor, Cashiering and Registration
Ann Kimbrow	Associate Director, Student Health Center
Paul Meyer	Property Clerk
Carolyn Mueller	Executive Assistant to the President
Lynda Moore	Director, Human Resources
Sandi Odell	Office Coordinator, Student Health Center
Lori Rudebock	Interim Accounting Officer
Donna Schafer	Dean, School of Research and Graduate Studies
Donna Sorensen	Director, Fiscal Affairs
Stephen Sullivan	Supervisor, Parking and Commuter Services
Thomas A. Swanger	Registrar, Office of Extended Education
John Westmoreland	Supervisor, Distribution 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.

Vice President  
Development & Administrative Services


**RECEIVED**  
University Auditor

SEP 16 2001

The California State  
University

**DATE:** August 14, 2001

**TO:** Larry Mandel  
University Auditor

**FROM:** Don A. Christensen   
Vice President for Development &  
Administrative Services

**SUBJECT:** Campus Response to FISMA Audit Report Number 00-10

Enclosed please find Humboldt State University's response to Audit Report Number 00-10, Financial Integrity and State Manager's Act (FISMA), dated July 23, 2001. For ease of reference the original recommendations have been included.

If you have any questions, please contact Donna Sorensen at (707) 826-3521 or myself.

DAC:om

Enclosure

c w/enclosure: Alistair McCrone, President  
Donna Sorensen, Director, Fiscal Affairs

**FISMA AUDIT REPORT 00-10  
HUMBOLDT STATE UNIVERSITY  
CAMPUS RESPONSE**

**PAYROLL/PERSONNEL**

**Recommendation 1**

We recommend that the campus strengthen procedures to ensure that all overtime work is preauthorized.

**Campus Response**

We concur.

Campus departments will be notified at least once annually at the beginning of fall semester that all overtime work must be authorized in writing in advance of the work being performed. In cases where this is impractical due to emergency situations, approval will be retroactive. Because this written preauthorization is subject to audit, the notification will stress the importance of maintaining this documentation on file in the department.

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**PURCHASING**

**Recommendation 2**

We recommend that the campus establish written procedures for purchase returns.

**Campus Response**

We concur.

A written procedure for handling purchase returns has been developed by the Supervisor of Distribution Services.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

September 7, 2001

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

TO: Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 00-10 on *FISMA* at  
Humboldt State University

LONG BEACH

LOS ANGELES

In response to your memorandum of September 7, 2001, I accept the response as submitted with the draft final report on *FISMA* at Humboldt State University.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

cc: Dr. Alistair W. McCrone, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS