

FISMA

SONOMA STATE UNIVERSITY

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CMS	Common Management System
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
G-I-K	Gift-In-Kind
HR	Human Resources
MPP	Management Personnel Plan
SAM	State Administrative Manual
SSU	Sonoma State University
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

INTRODUCTION

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 (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 2001-2002 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 2002 to March 2003. 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 regarding billing 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. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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

This report represents our biennial review.

OPINION

We visited the Sonoma State University (SSU) campus from March 3, 2003, through April 18, 2003, and made a study and evaluation of the accounting and administrative control in effect as of April 18, 2003. 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.

SSU 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 internal controls over the following areas: cash receipts, accounts receivable, the revolving fund, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, the SSU accounting and administrative controls in effect as of April 18, 2003, 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.

CASH RECEIPTS [7]

SATELLITE CASHIERING [7]

Cash control weaknesses were found at one of the three satellite cashiering locations visited and monthly reconciliations were not adequately documented at two locations. Adequate control and segregation of duties over cash receipts reduce campus exposure to loss from inappropriate acts.

REMITTANCES TO THE STATE TREASURY [9]

Remittances of monies to the State Treasury did not occur with the required frequency. Remitting monies at prescribed frequencies increases interest income to the State Treasury and complies with state policy.

FEE RECONCILIATIONS [10]

Fee reconciliations were not always prepared in a timely manner and retained on file. Completion of fee reconciliations in a timely manner and document retention strengthen accountability and decrease the risk that errors and irregularities will not be detected.

ACCOUNTS RECEIVABLE [11]

AGING SCHEDULE [11]

An aged accounts receivable trial balance for student accounts had not been produced since June 2002 due to the common management system (CMS) implementation. Maintenance of a current aged trial balance improves control over accounts receivable.

BILLING OF SERVICES [12]

Campus procedures did not ensure the timely compilation of data from service departments for billing to auxiliary enterprises. Presenting charges and collecting accounts receivable in a timely manner increase working capital and limit the potential for loss of revenue to the state.

PURCHASING [12]

Procurement card controls did not ensure that adequate supporting documentation was secured, appropriate purchases were made, and proper approval occurred in accordance with campus policies and procedures. Compliance with campus procurement card policies and procedures reduces the risk of campus loss from inappropriate acts.

REVOLVING FUND [14]

FUND COUNTS [14]

Independent cash counts of certain change and purchase funds did not always occur with the required frequency. Cash counts conducted at prescribed frequencies ensure adequate internal control over cash and reduce the risk of loss.

TRAVEL ADVANCES [15]

Controls over travel advances did not always ensure timely submission of travel expense claims. Sufficient control over travel advances ensures the availability of revolving fund monies.

PAYROLL AND PERSONNEL [16]

Leave credit administration needed improvement. Sufficient leave credit administration decreases the risk of unauthorized approval for extending the use of benefits and non-compliance with employment regulations.

FIXED ASSETS [17]

PROPERTY ACCOUNTING [17]

Controls over property accounting did not ensure that gift-in-kind property acquired through a donation was properly valued and inventoried in a timely manner. Sufficient controls over property accounting reduce the risk of misstated property records.

PROPERTY SURVEY REPORTS [18]

Property survey reports were not always completed properly and timely. The untimely completion of property survey reports is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit. Complete and timely property survey reports enhance accountability over the disposal of state property.

FISCAL INFORMATION TECHNOLOGY [19]

The fuel storage tank for the diesel generator was located immediately outside of the Schultz building and along a public thoroughfare, which creates a risk of fire and explosion to the data center from accidental or deliberate damage to the tank. Properly protecting fuel storage tanks reduces the risk of fire and explosion to the data center.

TRUST FUNDS [20]

USE OF TRUST ACCOUNTS [20]

Trust accounts were not always established and used in accordance with the Education Code and CSU policy. When trust accounts are appropriately established, the campus is in a stronger position when undergoing other state or external reviews.

TRUST EXPENDITURES [22]

Trust fund expenditures were not always appropriate and properly approved. Adequate control over trust fund expenditures reduces the risk of errors and irregularities.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash control weaknesses were found at one of the three satellite cashiering locations visited and monthly reconciliations were not adequately documented at two locations.

The satellite cashiering locations reviewed included customer services, athletics, and the school of extended education. Cash receipted at customer services, the school of extended education, and athletics for the fiscal year ending June 30, 2002, totaled approximately \$27,465,000, \$3,482,000, and \$250,000, respectively.

Athletics

- ▶ Transfer accountability was not maintained over either checks received through the mail or cash received at athletic events.
- ▶ One person was responsible for preparing the deposit slip, inputting receipt information into the department database, and reconciling the department database to the general ledger.
- ▶ Monthly reconciliations for ticket sales with the general ledger did not show the name of the preparer and the reviewer and the date prepared and reviewed to provide accountability and to evidence the timeliness of the reconciliations.
- ▶ Tickets sold for each event were not reconciled to cash receipts.
- ▶ A log was not maintained to control and account for the use of blank ticket stock; and although ticket stock was pre-numbered, tickets generated (i.e., sold, unsold, complimentary, voids, trade-outs, etc.) were not numerically or sequentially controlled or otherwise accounted for.
- ▶ Tickets issued for complimentary and trade-out purposes were not recorded to the general ledger.

The director of athletics attributed the cash control weaknesses to the limited number of staff within the department.

School of Extended Education

Monthly reconciliations for extension courses did not show the name of the preparer and the reviewer and the date prepared and reviewed to provide accountability and to evidence the timeliness of the reconciliations.

The business manager for the school of extended education stated that monthly reconciliations were saved on electronic files and reviewed online by the appropriate official.

State Administrative Manual (SAM) §8021 states that a separate series of transfer receipts will be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

SAM §8080.1 states, in part, “No one person shall perform more than one of the following eleven types of duties: (7) Receiving and depositing remittances. (8) Inputting receipts information. ... (10) Reconciling input to output.”

SAM §7908 states that all reconciliations will show the name of the preparer and the reviewer and the date prepared and reviewed.

SAM §7901 requires all reconciliations be prepared monthly within 30 days of the preceding month.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls includes a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Inadequate controls and segregation of duties over cash receipts increase campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Implement the use of transfer receipts at athletics to localize accountability over checks received through the mail and cash received at athletic events.
- b. Review the cashiering activities at athletics and take action to appropriately segregate the duties or establish effective mitigating controls.
- c. Establish procedures to ensure that monthly reconciliations are signed and dated by the preparer and reviewer.
- d. Establish procedures to reconcile ticket sold for each event to cash receipts.
- e. Maintain a log to control blank ticket stock and numerically or sequentially control or otherwise account for all tickets.
- f. Record complimentary tickets and trade-out transactions to the general ledger.

Campus Response

A review has been completed of the referenced department with procedures and practices revised and documented incorporating points a, b, d, e, and f above.

A letter will issued to university areas responsible for the completion of monthly reconciliations to ensure that the reconciling document as actually signed and dated by both preparer and reviewer.

Actions to be completed by October 31, 2003.

REMITTANCES TO THE STATE TREASURER

Remittances of monies to the State Treasury did not occur with the required frequency.

Accumulated deposits of \$25,000 were not remitted by the first day of the week following the accumulation between July 2002 and December 2002, although progress within this area had been made. During our review of remittances to the State Treasury, we noted the following frequencies and amounts remitted for activities other than escheat revenue:

Month	Number of Deposits	Total Remittances
July 2002	0	\$ 0
August 2002	3	5,200,000
September 2002	1	5,031,000
October 2002	2	4,815,476
November 2002	2	5,652,207
December 2002	2	443,725

SAM §8091 requires accumulated receipts of \$25,000 to be remitted no later than the first day of the week following the accumulation to the State Treasury of all monies determined to be revenue, reimbursements, abatements, and operating revenue.

The associate vice president for administration and finance indicated that the delay for remitting monies was the result of stabilizing, adapting new processes, and gaining knowledge of the newly implemented California State University (CSU) common management systems for finance, human resources, and student administration.

Not remitting monies to the State Treasury at prescribed frequencies results in lost interest income and non-compliance with state policy.

Recommendation 2

We recommend that the campus strengthen controls to ensure that monies are remitted to the State Treasury at prescribed frequency intervals.

Campus Response

The campus has strengthened and implemented the necessary practices beginning the week of January 20, 2003, and has remitted deposits to the State Treasurer at the prescribed intervals from that period forward.

Action completed.

FEE RECONCILIATIONS

Fee reconciliations were not always prepared in a timely manner and retained on file.

We noted that the campus converted to the common management student administration system in February 2002, and the reports formerly used to reconcile fees were not available following the implementation. We also noted that:

- ▶ The most recent monthly reconciliation of applications for admission prior to our review was completed in January 2002. Subsequently, a reconciliation was completed in April 2003 for admission applications received between February 2002 and March 2003.
- ▶ The state university fee reconciliation for the 2001 fall academic term was not retained to evidence completion. Additionally, the state university fee reconciliation for the 2002 fall academic term with a census date of October 2002 was not completed until April 2003.

State University Administrative Manual (SUAM) §3825.01 requires that a reconciliation of applications for admission to fees received be prepared one month after the end of the academic term being reconciled. To facilitate the reconciliation, the campuses may use month-end dates, rather than the ending dates of the academic term. For example, campuses on a quarter calendar would use December 31, March 21, and June 30 as the dates on which the quarter would end for reconciliation purposes. Campuses on semester calendars may adjust the reconciliation period accordingly.

SUAM §3825.02 requires that a reconciliation of state university fees to the census date report be prepared for each academic term and be maintained on file.

SAM §7901 requires all reconciliations be prepared within 30 days of the preceding period and retained until audit or four years, whichever occurs first.

The associate vice president for administration and finance indicated that the delay for preparing the fee reconciliations was the result of stabilizing, adapting new processes, and gaining knowledge of the newly implemented CSU common management systems for finance, human resources, and student administration.

Not completing fee reconciliations in a timely manner and not retaining documents compromise accountability and increase the risk that errors and irregularities will not be detected.

Recommendation 3

We recommend that the campus strengthen controls to ensure that application and state university fee reconciliations are completed in a timely manner and retained on file until audit or four years, whichever occurs first.

Campus Response

Beginning in June 2003, reconciliations of the admissions application fee and registration revenues have been reconciled monthly, signed and dated by both preparer and reviewer, and will be retained per the retention schedule recommended above.

Action completed.

ACCOUNTS RECEIVABLE

AGING SCHEDULE

An aged accounts receivable trial balance for student accounts had not been produced since June 2002 due to the common management system (CMS) implementation.

SAM §8776.6 indicates that collection procedures are required to be developed for prompt follow-up on receivables.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls includes a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. It further indicates that financial and operational reporting that is not timely or used as an effective management tool is a signal of a poorly maintained or vulnerable control system.

The associate vice president for administration and finance indicated that the delay for preparing the student accounts receivable aging schedule was the result of stabilizing, adapting new processes and gaining knowledge of the newly implemented CSU common management systems for finance, human resources, and student administration.

The lack of an aged accounts receivable trial balance weakens controls over accounts receivable.

Recommendation 4

We recommend that the campus follow through with the CSU CMS project committee to ensure completion of the modification of the student finance system, which includes production of an aged accounts receivable trial balance report.

Campus Response

SSU migrated the CMS-SOSS Student Administration provided modification in late June 2003. A student accounts receivable aging schedule was prepared for June 30, 2003 fiscal close and financial statement reporting purposes.

Action completed.

BILLING OF SERVICES

Campus procedures did not ensure the timely compilation of data from service departments for billing to auxiliary enterprises.

Our review of invoices dated September 2002 and February 2003 disclosed that:

- ▶ Fourteen billings for telecommunication services in September 2002 were invoiced 88 days after the services were provided.
- ▶ One billing of facilities services in September 2002 included work orders that were invoiced 62 and up to 133 days after the services were provided.
- ▶ Seven billings for police services in February 2003 were invoiced 89 and up to 194 days after the services were provided.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

The assistant controller for receipts, accounts receivable, and financial aid stated that delayed billings for services were attributed to the untimely compilation of data by the service departments.

Failure to timely invoice or recharge outstanding obligations due to the General Fund from other sources reduces working capital and the likelihood of collecting funds.

Recommendation 5

We recommend that the campus strengthen procedures to ensure that billings for services provided to auxiliary enterprises are timely invoiced.

Campus Response

A letter of instruction will be issued to SSU departments that provide internal services to the campus that establishes a billing process calendar that will maximize production of timely billings of campus recharges.

Action to be completed by October 31, 2003.

PURCHASING

Procurement card controls did not ensure that adequate supporting documentation was secured, appropriate purchases were made, and proper approval occurred in accordance with campus policies and procedures.

Our review of 20 procurement card purchase reports from November 2002 through January 2003 disclosed that:

- ▶ Four purchase reports included advertisements and food, and two reports included furniture purchases from a commercial vendor without a waiver obtained from the prison industry authority.
- ▶ Three purchase reports did not show the approval date by the approving official.
- ▶ Two purchase reports included hospitality expenses not approved by the president or a vice president, and three reports included purchases of hospitality expenses without prior approval to the event from the president or a vice president.
- ▶ One purchase report with a missing receipt did not include a certification of receipt of goods form.

The Sonoma State University (SSU) *Credit Card Procurement Handbook*, revised March 21, 2002, indicates that:

- ▶ The campus credit card is strictly unauthorized in the procurement of advertisements and food (under *Prohibited Use of Credit Card*, page 5).
- ▶ The cardholder must attach a certification of receipt of goods form with an explanation to the monthly credit card procurement purchase report if receipts/invoices are lost (under *CCP Receipt/Invoice*, page 9).
- ▶ The approving official shall receive and review the cardholder's bank statement and documentation along with signing and dating the cardholder's monthly credit card procurement purchase report (under *Procedures for Approving Official*, page 11).

The SSU policy, *Hospitality Expenses*, revised April 4, 2002, indicates that the president or a vice president must approve hospitality expenses prior to the event.

SAM §3505 requires the campus to procure any available goods or services produced by the prison industry authority, unless specifically waived.

The purchasing officer stated the noted instances of non-compliance with policy were oversights by the cardholders and approving officials.

Non-compliance with campus procurement card policies and procedures increase the risk of loss from inappropriate acts.

Recommendation 6

We recommend that the campus strengthen:

- a. Procedures to discourage inappropriate procurement card purchases.
- b. Controls over monthly reconciliations to ensure adequate supporting documentation and proper approval.

Campus Response

A review is underway of SSU's *Credit Card Procurement Handbook* to identify where revisions are necessary and where greater emphasis is needed. Based on the results of the review, a letter of instruction will be issued to cardholders.

Action to be completed by October 31, 2003.

REVOLVING FUND

FUND COUNTS

Independent cash counts of certain change and purchase funds did not always occur with the required frequency.

Our review of independent cash counts between July 2001 and February 2003 disclosed that:

- ▶ Twelve of the fourteen funds of \$200 or less were not counted within a 12-month interval.
- ▶ Six of the nine funds between \$225 and \$500 were not always counted within three-month intervals.
- ▶ Neither of the two funds over \$500 was consistently counted in monthly intervals.

SAM §8111.2 states, in part, that an employee other than the custodian of the fund will count it in accordance with the following schedule:

<u>Size of Fund</u>	<u>Frequency of Count</u>
\$200.00 or less	Annually
\$200.01 to \$500.00	Quarterly
\$500.01 to \$2,500.00	Monthly

The director of internal operations, analysis, and review indicated that the untimely counts were attributed to the availability of certain fund custodians and the campus' interpretation of annual frequency.

Not conducting independent cash counts at prescribed frequencies compromises internal control and increases the risk of loss.

Recommendation 7

We recommend that the campus strengthen controls to ensure that cash funds are counted at prescribed frequency intervals.

Campus Response

SSU has adopted the verification frequency of cash funds as prescribed by the State Administrative Manual.

Action completed.

TRAVEL ADVANCES

Controls over travel advances did not always ensure timely submission of travel expense claims.

Our review of travel expense claims submitted between October 2002 and March 2003 disclosed that it took an average of 70 days for personnel from the division of student affairs to submit a travel expense claim (TEC) to financial services after the trip.

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

CSU directive Human Resources (HR) 2001-02, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated January 17, 2001, states, in part, that the TEC must be submitted within a reasonable period of time not to exceed 60 days. If the advance exceeds the substantiated expenses, the employee must submit a check or money order with the TEC to return the excess advance no more than 120 days after the expense is paid or incurred.

The vice president for student affairs stated that the timing for submitting travel expense claims needed improvement.

Insufficient control over travel advances increases the risk that revolving fund monies are not available.

Recommendation 8

We recommend that the campus strengthen controls over travel advances to ensure the timely submission of TECs.

Campus Response

Letter of instructions will be issued to division executives advising them of the requirement to submit timely reimbursement for travel claims.

Action to be completed by October 31, 2003.

PAYROLL AND PERSONNEL

Leave credit administration needed improvement.

Specifically, we noted that:

- ▶ The delegation of authority to allow a management personnel plan (MPP) employee to accumulate vacation working hours beyond the maximum was not formally delegated from the president to the campus officer with the responsibility.
- ▶ The lump-sum payment for compensatory time off for 22 MPP employees in March 2003 was calculated using the previous salary rate prior to promotion. These promotions occurred between January 1994 and December 2002.

Education Code §42726 indicates that a MPP employee may accumulate vacation in an amount not to exceed 384 working hours for ten or less years of qualifying service and 440 working hours for more than ten years of qualifying service. Any vacation, which the appointing power allows to accumulate beyond the maximum, shall be taken in the first quarter of the next calendar year.

United States Code Annotated Title 29 §207(o)(3)(B) indicates that if compensation is paid to an employee for accrued compensatory time off, such compensation shall be paid at the regular rate earned by the employee at the time the employee receives such payment.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The senior director of human services stated that the campus had not previously prepared a formal delegation of authority for the campus official with the responsibility of extending the use of accumulated vacation working hours for MPP employees. She further indicated that the campus recognized the underpaid lump-sum payment for compensatory time off and intended to correct the error.

Inadequate leave credit administration increases the risk of unauthorized approval for extending the use of benefits and non-compliance with employment regulations.

Recommendation 9

We recommend that the campus:

- a. Obtain a formalized delegation of authority as required from the campus president to extend the use of accumulated vacation working hours for MPP employees.
- b. Strengthen procedures to ensure that payment of accrued compensatory time off is accurate.

Campus Response

We concur.

- a. Written delegation of authority for accumulation of vacation beyond the maximum was issued by the president on April 24, 2003.
- b. A practice has been developed and instituted to minimize reoccurrence.

Action completed.

FIXED ASSETS

PROPERTY ACCOUNTING

Controls over property accounting did not ensure that gift-in-kind property acquired through a donation was properly valued and inventoried in a timely manner.

During our review of gift-in-kind (G-I-K) property received in February 2002, we found that:

- ▶ G-I-K property was valued at the original retail sales price of \$844,655 rather than the educational discounted value. Based upon our interpretation of the Council for Advancement and Support of Education (CASE) *Management Reporting Standards* and donor company's educational discount value of 20%, the gift equipment should have been valued at \$675,724, the original retail sales price less the educational discount rate.
- ▶ It took over a year to record the G-I-K property in the general ledger.

Executive Order No. 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, states that all advancement programs and activities shall adhere to the Code of Ethics and Standards of Practice set forth by CASE.

CASE *Management Reporting Standards* state that G-I-K equipment should be reported at the educational discount value, the value the institution would have paid had it purchased the item outright from the vendor.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The senior director for financial services and university controller stated that the donor provided the value of the G-I-K equipment. She further stated that the G-I-K equipment remained in the storage containers until renovation of a building was completed.

Insufficient controls over property accounting increase the risk of misstated property records.

Recommendation 10

We recommend that the campus strengthen:

- a. G-I-K valuation procedures and controls to ensure compliance with *CASE Management Reporting Standards*.
- b. Controls to ensure that G-I-K donations are inventoried in a timely manner.

Campus Response

We concur:

- a. SSU's gift-in-kind acceptance form has been updated to comply with *CASE Management Reporting Standards*.
- b. Procedures will be developed to ensure that G-I-K donations are inventoried in a timely manner.

Action to be completed by October 31, 2003.

PROPERTY SURVEY REPORTS

Property survey reports were not always completed properly and timely. The untimely completion of property survey reports is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Our review of 15 property survey reports dated between January 2002 and January 2003 disclosed that:

- ▶ In four instances, the property survey board approved the survey report after the asset disposition had occurred.
- ▶ In five instances, the documentation for the transfer of property was incomplete.
- ▶ In one instance, a property transfer form for two automobiles was completed by the recipient agency over a year after the property survey date.

- ▶ In two instances, a sufficient audit trail specifying recycling of property was not maintained to provide accountability and to evidence the timeliness of the disposition.

SAM §3520.2 indicates that each agency will have a duly appointed property survey board. It will be the responsibility of the board to determine that the best interest of the state is served in disposing of state property. At least two members of the property survey board will approve all property survey reports and any transfers of location of equipment.

SAM §3520.3 indicates that a property survey report will be prepared whenever an agency proposes to dispose of state-owned property by sale, trade-in, discarding or to be turned over to property reutilization. A transfer of location of equipment will be prepared whenever it is proposed to transfer equipment between agencies or units within an agency.

The senior accountant stated that the procedures to complete property survey reports needed improvement.

Not preparing property survey reports in a timely and complete manner reduces accountability over the disposal of state property.

Recommendation 11

We recommend that the campus strengthen property survey controls to ensure the complete and timely preparation of property survey reports.

Campus Response

We concur. The campus has developed procedures to strengthen property survey controls to ensure the complete and timely preparation of property survey reports.

Action completed.

FISCAL INFORMATION TECHNOLOGY

The fuel storage tank for the diesel generator was located immediately outside of the Schultz building and along a public thoroughfare, which creates a risk of fire and explosion to the data center from accidental or deliberate damage to the tank.

SAM §4842 requires each state agency to establish and maintain a risk management process of taking actions to avoid or reduce risk to acceptable levels. This process includes both the identification and assessment of risk through risk analysis (SAM §4842.1) and the initiation and monitoring of appropriate practices in response to that analysis through the agency's risk management program.

SAM §4842.1 states, in part, that specific risks that must be addressed include, but are not limited to, those associated with accidental and deliberate acts on the part of an agency employees and outsiders; fire, flooding, and electric disturbances; and loss of data communications capabilities.

The director for administrative information technology stated that the fuel tank would be protected as part of the ongoing construction of the University Center that is immediately adjacent.

Not properly protecting the fuel storage tank increases the risk of fire and explosion to the data center.

Recommendation 12

We recommend that the campus accelerate its plan to properly protect the fuel storage tank. At a minimum, protective barriers or other shielding should be placed around this fuel tank.

Campus Response

SSU appreciates the recommendation provided with regard to the fuel storage tank sited outside the Schulz Information Center.

The State Fire Marshal approved the architectural design drawings of the Schulz Information Center, which included the current physical location of fuel storage tank (for the Schulz Information Center backup generator). The State Fire Marshall also approved general occupancy at completion of the Schulz Information Center, including the location of the fuel storage tank.

It is SSU's conclusion that the potential risk presented by the current physical location of the Schulz Information Center backup generator fuel storage tank is minimal and acceptable.

The recommendation of the university auditor will be taken into consideration in the design and planning phases of future buildings and major renovation capital projects where such a storage facility is included.

No Action Taken.

TRUST FUNDS

USE OF TRUST ACCOUNTS

Trust accounts were not always established and used in accordance with the Education Code and CSU policy.

Our review of 21 trust accounts disclosed that:

- ▶ The Contract Employee Vacation Trust (No. RY029) had been inappropriately established to receive money for the accrued vacation liability of former employees of an auxiliary organization hired by the campus.

- ▶ The source of funds for the Library Dean’s Trust (No. RY079) included monies totaling \$150,000 to be transferred from a CMS project trust account over a three-year period in consideration for library space provided to the project. The trust agreement permitted the funds to be prudently spent at the dean’s discretion. Because the CMS and library are a state project and department, respectively, any consideration for library space use should have been handled through budget adjustments within the General Fund.
- ▶ Per the trust agreement, the SSU General Project Management Trust (No. RY092) was erroneously described as an all-purpose trust account to support university-wide activities. The source of funds was described as project management fees and other revenue as appropriate. However, a review of expenditures disclosed that the trust account was being used for capital project management fees as permitted by SUAM §9034.01. Neither the sources nor purposes indicated in Education Code §89721 permits establishment of an all-purpose trust account.

Education Code §89721 states, in part, that a trust fund shall be legally established using monies received in connection with the following sources or purposes:

- (a) Gifts, bequests, devises, and donations.
- (b) Any student loan or scholarship fund program.
- (c) Advance payment for anticipated charges connected to federal grants or contracts.
- (d) Room, board, and similar expenses of students enrolled in international programs.
- (e) Cafeteria replacement funds.
- (f) Miscellaneous receipts subject to return upon approval of a proper application.
- (g) Fees and charges for services, materials, and facilities authorized by Section 89700 where these fees or charges are required of those persons who, at their option, use the services or facilities or are provided the material for which the fees or charges are made. Fees and charges so received and deposited shall be used solely to meet the costs of providing these services, materials, and facilities.
- (h) Fees for instructionally related activities as defined by the trustees and as authorized by Section 89700 and revenues derived from the conduct of the instructionally related activities.
- (i) Fees for parking, health facilities, or health services and for extension program, special sessions, and other self-supporting instructional programs.

- (j) Revenue received by the trustees from the California State Lottery Education Fund.
- (k) Monies received by the trustees for research, workshops, conferences, institutes, and special projects.

SUAM §9034.01 states that campuses may set up a trust account to record the receipt and expenditure of the management fees for capital outlay projects.

The senior director for financial services and university controller stated the campus' interpretation of Education Code §89721 permitted a broader range of trust project activities.

Trust accounts that are not established and used in accordance with the Education Code and CSU policy expose the university to public relations risks that are difficult to quantify but significant.

Recommendation 13

We recommend that the campus:

- a. Remit the cash in the Contract Employee Vacation Trust to the respective auxiliary organization providing the initial funds.
- b. Transfer the monies transferred from a CMS trust project in consideration for library space to the General Fund or provide evidence of trust expenditures used to meet the cost of library operations supported by the General Fund.
- c. Revise the trust agreement for the SSU General Project Management Trust to clarify and properly state the nature of the account.

Campus Response

Agree to complete the actions as recommended.

Action to be completed by October 31, 2003.

TRUST EXPENDITURES

Trust fund expenditures were not always appropriate and properly approved.

Our review of 40 trust fund expenditures disclosed that:

- ▶ Expenditures were made that did not meet the criteria for the costs of providing services and materials in two instances. Specifically, travel expense claims for conference attendance were paid from fees collected from the swim club.

- ▶ The president or a vice president did not approve hospitality expenses prior to the event in two instances.

Education Code §89721 states, in part, that a trust fund shall be legally established using monies received in connection with fees and charges for services, materials, and facilities authorized by Section 89700 where these fees or charges are required of those persons who, at their option, use the services or facilities or are provided the material for which the fees or charges are made. Fees and charges so received and deposited shall be used solely to meet the costs of providing these services, materials, and facilities.

The SSU policy *Hospitality Expenses*, revised April 4, 2002, indicates that the president or a vice president must approve hospitality expenses prior to the event.

The senior director for financial services and university controller stated that the type of expenditures authorized by the trust agreements permitted a variety of costs to support the project. She further stated that the instances of untimely approval for hospitality expenses were attributed to oversight.

Failure to assure that all expenditures are appropriate and properly approved increases the risk of errors and irregularities.

Recommendation 14

We recommend that the campus:

- a. Close the trust account for swim club fees and distribute the remaining balance to an appropriate General Fund account.
- b. Ensure that all hospitality expenses from trust accounts are approved in a timely manner.

Campus Response

Agree to complete the actions as recommended.

Action to be completed by October 31, 2003.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Ruben Armiñana	President
Pamela Alfred	Director for Business Services, California Institute on Human Services
Barry Blackburn	Director for Computer Operations Information Technology
Letitia Coate	Senior Director for Financial Services and University Controller
Laurence Furukawa-Schlereth	Vice President for Administration and Finance and Chief Financial Officer
Bill Fusco	Director of Athletics
John Hayes	Assistant Controller for Financial Services
Bill Houghton	Director of Academic Personnel
William Ingels	Treasurer
Kurt Koehle	Director for Internal Operations, Analysis, and Review
Rand Link	Vice President for Student Affairs
Ruth McDonnell	Purchasing Officer
Cindy Miller	Accounts Payable Manager
Edna Nakamoto	Senior Director for Human Services
Jerry Norris	Accountant, Fixed Assets and Property
Gloria Ogg	Senior Director for University Business Services
Brian Orr	Senior Accountant
Janice Peterson	Budget Manager
Katie Pierce	Associate Vice President for Academic Resources
Valerie Riffle	Database Coordinator, Development Office
Robert Rosen	Business Manager for School of Extended Education
Paul Santini	Assistant Controller for Receipts, Accounts Receivable, and Financial Aid
Nicholas Saschin	Account Administrator
Samuel Scalise	Senior Director for Information Technology
Lou Ann Seasman	Director for Administrative Information Technology
Jean Snyder	Accountant, Accounts Receivable
Joyce Suzuki	Managing Director of Employee Relations and Compliance Services
George Triest	Associate Director for California Institute on Human Services
Mary Trimble	Accountant, Receipts
Deanna Wilson	Managing Director for Payroll and Benefits
Steven Wilson	Associate Vice President for Administration and Finance

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.



DIVISION OF ADMINISTRATION AND FINANCE
1801 East Cotati Avenue
Rohnert Park, California 94928-3609

RECEIVED
UNIVERSITY AUDITOR

OCT - 8 2003

THE CALIFORNIA STATE
UNIVERSITY

October 3, 2003

Larry Mandel
University Auditor
401 Golden Shore, 4th Floor
Long Beach, California 90802-4200

Dear Mr. ~~Mandel~~ *LA*

On behalf of President Armiñana, I am submitting the campus response to the recommendations of Audit Report Number 03-01, FISMA at Sonoma State University. This response has also been forwarded via email to **lmandel@calstate.edu** as requested in your September 3, 2003 transmittal letter.

Please contact Kurt Koehle (**kurt.koehle@sonoma.edu**) on my staff for additional information and follow up.

Sincerely,

A handwritten signature in black ink, appearing to be "LA", written over a horizontal line.

Laurence Furukawa-Schlereth
Chief Financial Officer and
Vice President for Administration and Finance

Enclosures

Cc: President Ruben Armiñana
Letitia Coate, Controller and Senior Director for Financial Services
Steve Wilson, Associate Vice President for Administration and Finance
Kurt Koehle, Director of Internal Operations

THE CALIFORNIA STATE UNIVERSITY

Bakersfeld • Chico • Dominguez Hills • Fresno • Fullerton • Hayward • Humboldt • Long Beach • Los Angeles • Maritime
Academy • Monterey Bay • Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San Jose • San
Luis Obispo • San Marco • Sonoma • Stanislaus

**SONOMA STATE UNIVERSITY
FISMA
AUDIT REPORT NO. 03-01**

CASH RECEIPTS**SATELLITE CASHIERING****Recommendation 1**

We recommend that the campus:

- a. Implement the use of transfer receipts at athletics to localize accountability over checks received through the mail and cash received at athletic events.
- b. Review the cashiering activities at athletics and take action to appropriately segregate the duties or establish effective mitigating controls.
- c. Establish procedures to ensure that monthly reconciliations are signed and dated by the preparer and reviewer.
- d. Establish procedures to reconcile ticket sold for each event to cash receipts.
- e. Maintain a log to control blank ticket stock and numerically or sequentially control or otherwise account for all tickets.
- f. Record complimentary tickets and trade-out transactions to the general ledger.

Campus Response

- 1 A review has been completed of the referenced department with procedures and practices revised and documented incorporating points a, b, d, e, and f above.
- 2 A letter will issued to university areas responsible for the completion of monthly reconciliations to ensure that the reconciling document as actually signed and dated by both preparer and reviewer.

Actions to be completed by October 31, 2003

REMITTANCES TO THE STATE TREASURER**Recommendation 2**

We recommend that the campus strengthen controls to ensure that monies are remitted to the State Treasury at prescribed frequency intervals.

SONOMA STATE UNIVERSITY
FISMA
AUDIT REPORT NO. 03-01

Campus Response

The campus has strengthened and implemented the necessary practices beginning the week of January 20, 2003 and has remitted deposits to the State Treasurer at the prescribed intervals from that period forward.

Action completed

FEE RECONCILIATIONS**Recommendation 3**

We recommend that the campus strengthen controls to ensure that application and state university fee reconciliations are completed in a timely manner and retained on file until audit or four years, whichever occurs first.

Campus Response

Beginning in June 2003 reconciliations of the admissions application fee and registration revenues have been reconciled monthly, signed and dated by both preparer and reviewer, and will be retained per the retention schedule recommended above.

Action completed

ACCOUNTS RECEIVABLE**AGING SCHEDULE****Recommendation 4**

We recommend that the campus follow through with the CSU CMS project committee to ensure completion of the modification of the student finance system, which includes production of an aged accounts receivable trial balance report.

Campus Response

SSU migrated the CMS-SOSS Student Administration provided modification in late June 2003. A student accounts receivable aging schedule was prepared for June 30, 2003 fiscal close and financial statement reporting purposes.

Action completed

SONOMA STATE UNIVERSITY
FISMA
AUDIT REPORT NO. 03-01

BILLING OF SERVICES**Recommendation 5**

We recommend that the campus strengthen procedures to ensure that billings for services provided to auxiliary enterprises are timely invoiced.

Campus Response

A letter of instruction will be issued to SSU departments that provide internal services to the campus that establishes a billing process calendar that will maximize production of timely billings of campus recharges.

Action to be completed by October 31, 2003.

PURCHASING**Recommendation 6**

We recommend that the campus strengthen:

- a. Procedures to discourage inappropriate procurement card purchases.
- b. Controls over monthly reconciliations to ensure adequate supporting documentation and proper approval.

Campus Response

A review is underway of SSU's Credit Card Procurement Handbook to identify where revisions are necessary and where greater emphasis is needed. Based on the results of the review a letter of instruction will be issued to cardholders.

Action to be completed by October 31, 2003.

REVOLVING FUND**FUND COUNTS****Recommendation 7**

We recommend that the campus strengthen controls to ensure that cash funds are counted at prescribed frequency intervals.

SONOMA STATE UNIVERSITY
FISMA
AUDIT REPORT NO. 03-01

Campus Response

SSU has adopted the verification frequency of cash funds as prescribed by the State Administrative Manual.

Action completed

TRAVEL ADVANCES**Recommendation 8**

We recommend that the campus strengthen controls over travel advances to ensure the timely submission of TECs.

Campus Response

Letter of instructions will be issued to division executives advising them of the requirement to submit timely reimbursement for travel claims.

Action to be completed by October 31, 2003.

PAYROLL AND PERSONNEL**Recommendation 9**

We recommend that the campus:

- a. Obtain a formalized delegation of authority as required from the campus president to extend the use of accumulated vacation working hours for MPP employees.
- b. Strengthen procedures to ensure that payment of accrued compensatory time off is accurate.

Campus Response

We concur.

- a. Written Delegation of Authority for Accumulation of Vacation Beyond the maximum was issued by the President on April 24, 2003.
- b. A practice has been developed and instituted to minimize reoccurrence.

Action completed

**SONOMA STATE UNIVERSITY
FISMA
AUDIT REPORT NO. 03-01**

FIXED ASSETS**PROPERTY ACCOUNTING****Recommendation 10**

We recommend that the campus strengthen:

- a. G-I-K valuation procedures and controls to ensure compliance with CASE *Management Reporting Standards*.
- b. Controls to ensure that G-I-K donations are inventoried in a timely manner.

Campus Response

We concur:

- a. SSU's Gift-in-Kind Acceptance form has been updated to comply with CASE Management Reporting Standards.
- b. Procedures will be developed to ensure that G-I-K donations are inventoried in a timely manner.

Action to be completed by October 31, 2003.

PROPERTY SURVEY REPORTS**Recommendation 11**

We recommend that the campus strengthen property survey controls to ensure the complete and timely preparation of property survey reports.

Campus Response

We concur. The campus has developed procedures to strengthen property survey controls to ensure the complete and timely preparation of property survey reports.

Action completed

SONOMA STATE UNIVERSITY
FISMA
AUDIT REPORT NO. 03-01

FISCAL INFORMATION TECHNOLOGY**Recommendation 12**

We recommend that the campus accelerate its plan to properly protect the fuel storage tank. At a minimum, protective barriers or other shielding should be placed around this fuel tank.

Campus Response

SSU appreciates the recommendation provided with regard to the fuel storage tank sited outside the Schulz Information Center.

The State Fire Marshal approved the architectural design drawings of the Schulz Information Center, which included the current physical location of fuel storage tank (for the Schulz Information Center backup generator). The State Fire Marshall also approved general occupancy at completion of the Schulz Information Center, including the location of the fuel storage tank.

It is SSU conclusion that the potential risk presented by the current physical location of the Schulz Information Center back up generator fuel storage tank is minimal and acceptable.

The recommendation of the University Auditor will be taken into consideration in the design and planning phases of future buildings and major renovation capital projects where such a storage facility is included.

No Action Taken

TRUST FUNDS**USE OF TRUST ACCOUNTS****Recommendation 13**

We recommend that the campus:

- a. Remit the cash in the Contract Employee Vacation Trust to the respective auxiliary organization providing the initial funds.
- b. Transfer the monies transferred from a CMS trust project in consideration for library space to the General Fund or provide evidence of trust expenditures used to meet the cost of library operations supported by the General Fund.

**SONOMA STATE UNIVERSITY
FISMA
AUDIT REPORT NO. 03-01**

Revise the trust agreement for the SSU General Project Management Trust to clarify and properly state the nature of the account.

Campus Response

Agree to complete the actions as recommended.

Action to be completed by October 31, 2003.

TRUST EXPENDITURES

Recommendation 14

We recommend that the campus:

- a. Close the trust account for with the swim club fees and distribute the remaining balance to an appropriate General Fund account.
- b. Ensure that all hospitality expenses from trust accounts are approved in a timely manner.

Campus Response

Agree to complete the actions as recommended.

Action to be completed by October 31, 2003.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 10, 2003

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-01 on *FISMA*,
Sonoma State University

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of November 5, 2003, I accept the response as submitted with the draft final report on *FISMA*, Sonoma State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Ruben Armijana, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS