

FISMA

**CALIFORNIA STATE UNIVERSITY,
STANISLAUS**

**Report Number 03-04
September 8, 2003**

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ABBREVIATIONS

AB	Assembly Bill
CSU	California State University
CSUS	California State University, Stanislaus
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
IRS	Internal Revenue Service
PMCP	Policy Manual for Contracting and Procurement
SAM	State Administrative Manual
SCO	State Controller's Office
SFAC	Student Fee Advisory Committee
SUAM	State University Administrative Manual

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 January 2002 to December 2002. 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 CSU Stanislaus (CSUS) campus from March 10, 2003, through May 2, 2003, and made a study and evaluation of the accounting and administrative control in effect as of May 2, 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.

CSUS 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: fee approvals, accounts receivable, cash disbursements, and trusts. 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 CSUS accounting and administrative control in effect as of May 2, 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 [6]

TRANSFER ACCOUNTABILITY [6]

Cash receipts were transferred from housing and public safety to main cashiering without the use of transfer receipts. This is a repeat finding from the prior two Financial Integrity and State Manager's Accountability Act (FISMA) audits for housing. The use of transfer receipts reduces campus exposure to loss from inappropriate acts and localizes accountability for lost funds.

FEE AUTHORIZATION [6]

Newly established and adjusted fees were not always properly processed and approved. Appropriate authorization of fee actions ensures that fees are proper.

FEE RECONCILIATIONS [7]

Fee reconciliations were not always prepared in a timely manner. Timely completion of fee reconciliations reduces the risk that errors and irregularities will not be promptly detected.

ACCOUNTS RECEIVABLE [9]

The campus wrote off some accounts receivable without requesting relief from accountability from the state, and collection efforts required improvement. Adequate controls over accounts receivables improve reliability of financial data, increase the likelihood of collection, and positively impact cash flow.

CASH DISBURSEMENTS [10]

VENDOR DATA RECORDS [10]

Vendor data records were not always obtained. Adequate controls over STD. 204 forms reduce the risk of penalties, fines, or interest charges.

CHECK WRITING [11]

An adequate segregation of duties was not maintained over the check writing process, and check controls required strengthening. A properly controlled check writing process reduces the risk of errors, irregularities, and misappropriation.

PAYROLL/PERSONNEL [12]

Employee separation procedures did not ensure the completion of clearance forms and timely removal of access to computer systems. Adequate control over employee separation procedures reduces the risk of loss of state funds and the inappropriate use of state resources.

TRUST FUNDS [13]

TRUST FUND ADMINISTRATION AND USE [13]

Trust funds were not always established in accordance with the Education Code and CSU policy. When trust funds are appropriately established, the university is in a better position when undergoing other state or external reviews, while strong trust fund administration reduces the risk of inappropriate expenditures and loss.

TRUST EXPENDITURES [15]

Trust fund expenditures were not always properly approved and in accordance with underlying trust fund agreements. Properly approved expenditures in accordance with trust agreements reduce the risk of inappropriate expenditures and loss.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

TRANSFER ACCOUNTABILITY

Cash receipts were transferred from housing and public safety to main cashiering without the use of transfer receipts. This is a repeat finding from the prior two Financial Integrity and State Manager's Accountability Act (FISMA) audits for housing.

The satellite cashiering locations visited included housing, public safety, and the Stockton off-campus center.

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.

The housing finance coordinator, parking management bureau supervisor, and the cashier's office team lead indicated that they were unaware of this requirement. The assistant controller indicated that the lack of transfer receipt usage has never led to a loss of cash since all cashiering locations employ a centralized computer system to record cash received, and the cashiers perform daily reconciliations of system generated cash reports to cash received.

The absence of transfer receipts increases campus exposure to loss from inappropriate acts and compromises the campus' ability to localize accountability for lost funds.

Recommendation 1

We recommend that the campus establish and implement procedures to utilize transfer receipts between the housing and public safety satellite cashiering locations and main cashiering.

Campus Response

We concur. Campus procedures for satellite cashiering sites already include information regarding the appropriate use of transfer receipts. This information will be reemphasized to housing and public safety. State transfer receipt forms have been ordered from the Department of General Services and will be issued to satellite cashiering sites when received. New procedures will be implemented by November 2003.

FEE AUTHORIZATION

Newly established and adjusted fees were not always properly processed and approved.

We reviewed five category III fees (these are fees, other than those paid to apply to, enroll in, or attend the university, that are for materials, services, or the use of facilities provided by the university, or to enroll in a course offered through a self-support instructional program) and found that:

- ▶ Two newly established fees (Agricultural Entomology Fee and Junior Voice Major Repertoire Fee) did not receive either consideration by the student fee advisory committee (SFAC) or the approval of the president and the chancellor.
- ▶ Three fees (Orientation Fee, Human Resources in the Community College Fee, and Figure Sculpture Fee) had been adjusted without the president's approval. In addition, the required campus Application to Assess a Materials, Services, or Facilities Fee form could not be located for the Orientation Fee.

Executive Order (EO) No. 740, *The California State University Student Fee Policy*, dated April 13, 2000, states, in part, that delegated authority is given to the chancellor to establish new campus fees and to the president to increase, decrease, or abolish campus fees. For category III fees, consideration by the campus fee advisory committee is required before the president either requests the chancellor to establish a new fee or adjust a current fee.

California State University, Stanislaus (CSUS) procedures require submission of an Application to Assess a Materials, Services, or Facilities Fee form to initiate a new or adjusted fee.

The vice president for student affairs indicated that the past campus practice had not included bringing all fees to the SFAC; however, implementing appropriate controls had rectified this. The assistant controller indicated that the campus had initiated a review of the fee authorization process in order to provide assurance of compliance with California State University (CSU) policy.

Improper fees could be assessed if the required authorization is not obtained.

Recommendation 2

We recommend that the campus obtain appropriate approval for the above mentioned fee actions and strengthen controls to ensure that fee actions are properly processed and approved in the future.

Campus Response

We concur. The student fee advisory committee has developed procedures for establishing new fees and adjusting existing fees in accordance with EO No. 740. The student fee advisory committee reviews all fee proposals, whether for new or adjusted fees, and assures that processes are followed as required to adjust or implement fees. A copy of the new procedures will be sent to the university auditor in November 2003.

FEE RECONCILIATIONS

Fee reconciliations were not always prepared in a timely manner.

We noted that:

- ▶ Application fee reconciliations for the summer and fall 2001 academic terms were not completed until January 18, 2002, and September 13, 2002, respectively. The reconciliation for the fall 2002 academic term was not completed until February 27, 2003.
- ▶ State university fee reconciliations for the summer 2001 and spring 2002 terms were not completed until January 18, 2002, and July 23, 2002, respectively. The reconciliations for the summer and fall 2002 academic terms were not completed until February 21, 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.

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

SAM §7901 requires preparation of all reconciliations within 30 days of the preceding month.

The assistant controller indicated that workload issues interfered with the timely preparation of fee reconciliations.

Failure to prepare timely reconciliations increases the risk that errors and irregularities will not be promptly detected.

Recommendation 3

We recommend that the campus strengthen procedures to ensure timely completion of application and state university fee reconciliations.

Campus Response

We concur. All task manuals include timelines for completion of various financial reconciliations; however, heavy workload has prevented some areas from completing reconciliations within guidelines recommended by SUAM and SAM. Evidence of compliance with this state mandate will be sent to the university auditor by March 2004.

ACCOUNTS RECEIVABLE

The campus wrote off some accounts receivable without requesting relief from accountability from the state, and collection efforts required improvement.

We found that:

- ▶ The campus wrote off some accounts over \$1,000 without submitting an application for Discharge From Accountability from the state.
- ▶ Although monthly account statements were sent, accounts receivable collection efforts did not include the use of a series of three collection letters with a progressively stronger tone.
- ▶ A campus policy to write off accounts after they became six months old resulted in an understatement of accounts receivable. It has been our observation that accounts between six months old and one year have been collectible.

EO No. 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts as outlined in SAM §8776.6, which includes collection procedures that assure prompt follow-up on receivables.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including a sequence of three collection letters at 30-day intervals with a progressively stronger tone and specific requirements for filing applications for Discharge From Accountability (form STD. 27) with the State Controller's Office (SCO).

SAM §20050 indicates, in part, 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. Further, 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 accounts receivable team lead stated her understanding that the campus was required to write off receivables once they were outstanding for more than a year. The assistant controller indicated that the campus procedures for following up on accounts receivable seemed adequate for recovering amounts due the university. He further stated that past unsuccessful experiences in requesting discharge from accountability from the SCO justified not filing for such authorization.

Inadequate controls over accounts receivables increase the risk that receivables will not be properly controlled and reflected in campus financial statements, reduce the likelihood of collection, and negatively impact cash flow.

Recommendation 4

We recommend that the campus:

- a. Limit local write-offs to uncollectible accounts receivable that do not exceed \$1,000 and reestablish procedures to submit applications for discharge of accountability to the SCO for accounts exceeding \$1,000.
- b. Establish and implement procedures to use a series of three collection letters with a progressively stronger tone.
- c. Modify campus policy such that write-offs do not occur before accounts are more than one year past due and continue to actively pursue collection in the meantime.

Campus Response

We concur. Procedures have been changed to send uncollectible accounts receivable exceeding \$1,000 to the SCO for discharge of accountability. Progressively stronger collection letters are being drafted for use in collection efforts. Procedure manuals have been changed to reflect that accounts may not be written off until they are at least one year old and have been deemed uncollectible. New procedures will be completed by December 2003.

CASH DISBURSEMENTS

VENDOR DATA RECORDS

Vendor data records were not always obtained.

Our review of 25 disbursements disclosed that a vendor data record (form STD. 204) was not on file for three vendors and was received after payment for one other vendor.

SAM §8422.190 states that a completed STD. 204 form must be obtained whenever a state agency engages in a transaction that leads to a payment to any individual or any entity that is not a governmental entity. Further, for non-contract transactions, this form must be completed by the vendor and retained in the state agency's business services or accounting office as determined by state agency policy.

The Internal Revenue Service (IRS) Code §6041 states that a state agency that fails to obtain the Tax Identification Number or fails to file timely information returns is subject to a penalty of up to \$50 per annual information return to a maximum of \$250,000. In addition, the state agency can be assessed a 31 percent federal backup income tax withholding on amounts that were incorrectly reported or were not withheld. The IRS and/or the state's Franchise Tax Board may assess further penalties, fines, and interest.

The accounts payable team lead indicated that not obtaining the STD. 204 forms was an oversight since campus policy is to comply with all state and federal requirements.

Not obtaining STD. 204 forms increases the risk of penalties, fines, or interest charges.

Recommendation 5

We recommend that the campus strengthen procedures to obtain STD. 204 forms from vendors.

Campus Response

We concur. All procurement task manuals include required procedures regarding Vendor 204 forms. Proper procedures will be reemphasized to procurement team members to ensure compliance with this state regulation. This will be completed by December 2003.

CHECK WRITING

An adequate segregation of duties was not maintained over the check writing process, and check controls required strengthening.

We found that the financial services information technology consultant, his student assistant, and the financial services systems analyst had access that permitted them to modify the electronic check file that was used as input to the check writing software, the authority to print checks, and access to blank check stock. In addition, check controls did not include validation of entries in the check log, used to record the check numbers of checks printed, to the printed checks.

SAM §8080.1 states, “No one person shall perform more than one of the following [eleven] types of duties: 1. Designing Systems 2. Programming 3. Maintaining records file and operating mechanized equipment ... 9. Controlling blank check stock.”

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets, a system of authorization and record-keeping procedures adequate to provide effective accounting control, and an effective system of internal review.

The assistant vice president of financial services indicated that she was not aware that the aforementioned staff members had check-writing file update capabilities or that the check log comparison was not being performed.

Weaknesses in the check writing process increase the risk of errors, irregularities, and misappropriation.

Recommendation 6

We recommend that the campus:

- a. Review the check writing process and take action to appropriately segregate duties and restrict check-writing file update responsibilities.
- b. Implement a procedure to compare the numbers from the printed checks with the check numbers entered in the check log.

Campus Response

We concur. Procedures will be rewritten and duties reassigned to ensure appropriate internal controls are maintained. Changes in procedures will be implemented by January 2004.

PAYROLL/PERSONNEL

Employee separation procedures did not ensure the completion of clearance forms and timely removal of access to computer systems.

We noted that employee separation procedures did not include follow-up to ensure that the campus clearance form was completed. In addition, the employee clearance form did not include an entry to assure the removal or disabling of access to campus computer systems for terminating employees.

SAM §8580.4 describes the need for adequate separation procedures, including preparation of a clearance form that includes the clearance of revolving fund advances (travel and salary), and the return of keys, equipment, credit cards, etc.

SAM §4842.2 states that personnel practices related to security management must include termination procedures that ensure that agency information assets are not accessible to former employees.

The human resources director indicated that before passage of Assembly Bill (AB) 2410, which requires payment of all earned and unpaid wages to an employee upon termination, the separation process included close monitoring to insure that clearance forms were completed prior to issuing final payments. She further stated that the same close monitoring had not been followed since the passage of AB 2410. The assistant vice president of financial services stated that the separation form needed to be modified to help ensure the removal of access to campus computer systems for terminating employees.

Inadequate control over employee separation procedures increases the risk of loss of state funds and the inappropriate use of state resources.

Recommendation 7

We recommend that the campus:

- a. Establish procedures to ensure that clearance forms are completed for all separated employees.
- b. Revise the employee clearance form to ensure that appropriate notification occurs regarding the removal of access to campus computer systems for terminating employees.

Campus Response

We concur. The campus is in the process of revising the employee clearance form to include verifying removal of access to campus computer systems. In addition, human resources is sending a list of terminated employees weekly to the office of information technology so access to campus computer systems will be terminated whether or not the clearance form has been completed. The human resources office will follow up on delinquent forms to ensure they are appropriately completed. The new form and procedures will be implemented by January 2004.

TRUST FUNDS

TRUST FUND ADMINISTRATION AND USE

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

Our review of 16 trust accounts disclosed that:

- ▶ The Facilities Rental Account (No. 758109) had been established to manage revenue and expenses related to public use of grounds and support equipment. However, anticipated expenditures inappropriately included food and beverages for working meetings; and employee recognition events, awards, travel, and retreat expenses.
- ▶ The purpose for the Public Safety Operations Account (No. 758108) was not clearly defined since it was stated to be a repository for non-state funds with a source of receipts to include miscellaneous service fees, reimbursement for training, and court reimbursements. Anticipated expenditures included any expenditure related to the function and purpose of this trust (i.e., POST travel, supplies and services, equipment, food, etc.).
- ▶ A written trust agreement had not been prepared for the Instructionally Related Activities Overhead Trust (No. 743150). In addition, a review of procurement card transactions disclosed inappropriate payments for supplies related to a fiscal services department holiday party.
- ▶ The General Fund was not being reimbursed for support provided to the maintenance of trust accounts related to contracts and grants.

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.

SAM §19440.1 indicates that each trust account established shall be supported by documentation as to the type of trust, donor, or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on the use of monies for administrative or overhead costs.

SUAM §3710.12 requires that, if funds are expended in the General Fund on behalf of a trust fund or project, the trust fund or project shall reimburse the General Fund in a timely fashion.

The assistant vice president of financial services indicated her belief that the campus had made concerted efforts to improve trust agreements, processing of trust expenditures, and updating of procedures to improve compliance with state and CSU requirements. She further indicated that actions will continue to be taken whenever necessary to improve compliance.

Trust accounts that are not established and used in accordance with the Education Code and CSU policy expose the university to public relations risks, while weaknesses in trust fund administration increase the risk of inappropriate expenditures and loss.

Recommendation 8

We recommend that the campus:

- a. Establish and implement controls to ensure that expenditures from the Facilities Rental trust account are used solely to meet the costs associated with the public use of grounds.
- b. Review the Public Safety Operations trust account and take appropriate action to either bring the trust into compliance with the Education Code or close the account and transfer the remaining monies to the General Fund.
- c. Prepare a written trust agreement for the Instructionally Related Activities Overhead trust account, and establish and implement controls to ensure that expenditures from the trust account are used solely to meet the costs associated with instructionally related activities.
- d. Establish and implement procedures to reimburse the General Fund for the cost of support provided to maintain trust accounts related to contracts and grants.

Campus Response

We concur. The Facilities Rental account and Public Safety Operations account are being reviewed for compliance with the education code and trust documents. They will either be closed or brought into compliance. A trust agreement has been prepared for the Instructionally Related Activities Overhead trust account, and a copy will be forwarded to the university auditor's office. A methodology has been established to determine amounts that should be reimbursed to General Fund for work related to maintaining trust accounts related to grants and contracts. Documentation verifying implementation of all parts of this recommendation will be sent by January 2004.

TRUST EXPENDITURES

Trust fund expenditures were not always properly approved and in accordance with underlying trust fund agreements.

Our review of 30 trust fund expenditures disclosed that an individual listed on the corresponding trust agreement had not approved four expenditures. In addition, three expenditures were not in accordance with the purpose or anticipated expenditures as stated in the underlying trust agreements.

SAM §19440.1 provides that each trust account established shall be supported by documentation of the persons authorized to withdraw or expend funds, their specimen signatures, the purpose of the trust, and restrictions on the use of monies.

SAM §20050 states 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 assistant vice president of financial services indicated her belief that the campus had made concerted efforts to improve the processing of trust expenditures. She further indicated that actions will continue to be taken whenever necessary to improve compliance.

Failure to assure that all expenditures are properly approved and in accordance with trust agreements increases the risk of inappropriate expenditures and loss.

Recommendation 9

We recommend that the campus strengthen procedures to improve assurance that expenditures comply with state and CSU requirements.

Campus Response

We concur. The campus has implemented a new system of review for trust expenditures. Trust requisitions are reviewed for appropriateness and authorized signature before going to procurement for processing. The revised procedure will be forwarded to the university auditor by November 2003.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Marvalene Hughes	President
Julie Benevedes	General Accounting Manager
Frank Borrelli	Property Records Coordinator
Eleanor Carpenter	Travel Coordinator
Carol Castillo	Director, Procurement Services
Pamela Craft	Academic Support Services Coordinator
Debra Da Rosa	Accounts Payable Team Lead
Jean de Grassi	Student Support Specialist
April Dunham-Filson	Accountant
Becky Fields	Accounting Technician
Lori Fischer	Assistant to the Controller
Bety Gonzalez de Brito	Account Technician II
D'ette Gonzalez	Payroll Team Lead
Delfin Guillory	Accounts Receivable Team Lead
Patricia Hendrix	Accounts Receivable Technician
Tammy Horner	Accountant
Mary Kobayashi Lee	Director of Human Resources
Dosie Lewis	Team Lead, Cashier's Office
Yolanda Martinez	Accounting Technician
Rudy Medina	Information Technology Consultant, Financial Services
Stacey Morgan-Foster	Vice President for Student Affairs
Donevon Murrell	Support Services Supervisor, Department of Public Safety Services
Becka Paulsen	Assistant Vice President, Financial Services
Jim Phillips	Assistant Controller
Jon Potter	Supervising Community Service Officer
Maria Romero	Student Accounts Receivable Coordinator
Robert Rosas	Shipping and Receiving Technician
Christine Sanders	Supervisor, Parking Management Bureau
Christine Snyder	Administrative Secretary, Student Affairs
Mary Stephens	Vice President, Business and Finance
Mary Vieira	Housing Finance Coordinator
Alison Wolz	Accounting and Finance Manager, Auxiliary and Business Services
Shawna York	Secretary, Housing and Residential Life

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.



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Vice President for Business and Finance

**RECEIVED
UNIVERSITY AUDITOR**

OCT 15 2003

**THE CALIFORNIA STATE
UNIVERSITY**

October 15, 2003

Larry Mandel, University Auditor
Office of the Chancellor
401 Golden Shore
Long Beach, CA 90802-4210

Dear Larry:

The campus responses to the recent FISMA audit recommendations are enclosed. We appreciate the effort made to point out our internal control weakness and assure you that all areas of weakness will be fully addressed over the next few months.

Any questions concerning the response should be directed to Becka Paulsen, Assistant Vice President for Financial Services, at (209) 667-3379 or via email at bpaulsen@csustan.edu.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Mary Stephens'.

Mary Stephens
Vice President of Business and Finance

cc: President Hughes
Assistant Vice President Paulsen

THE CALIFORNIA STATE UNIVERSITY

**California State University, Stanislaus
Campus Responses to FISMA Audit Findings
Report Number 03-04
September 2003**

Recommendation 1

We recommend that the campus establish and implement procedures to utilize transfer receipts between the housing and public safety satellite cashiering locations and main cashiering.

Campus Response

We concur. Campus procedures for satellite cashiering sites already include information regarding the appropriate use of transfer receipts. This information will be reemphasized to housing and public safety. State transfer receipt forms have been ordered from the Department of General Services and will be issued to satellite cashiering sites when received. New procedures will be implemented by November 2003.

Recommendation 2

We recommend that the campus obtain appropriate approval for the above mentioned fee actions and strengthen controls to ensure that fee actions are properly processed and approved in the future.

Campus Response

We concur. The Student Fee Advisory Committee has developed procedures for establishing new fees and adjusting existing fees in accordance with EO 740. The Student Fee Advisory Committee (SFAC) reviews all fee proposals, whether for new or adjusted fees, and assures that processes are followed as required to adjust or implement fees. A copy of the new procedures will be sent to the University Auditor in November 2003.

Recommendation 3

We recommend that the campus strengthen procedures to ensure timely completion of application and state university fee reconciliations.

Campus Response

We concur. All task manuals include timelines for completion of various financial reconciliations, however heavy workload has prevented some areas

from completing reconciliations within guidelines recommended by SUAM and SAM. Evidence of compliance with this state mandate will be sent to the University Auditor by March 2004.

Recommendation 4

We recommend that the campus:

- a. Limit local write-offs to uncollectible accounts receivable that do not exceed \$1,000 and reestablish procedures to submit applications for discharge of accountability to the SCO for accounts exceeding \$1,000.
- b. Establish and implement procedures to use a series of three collection letters with a progressively stronger tone.
- c. Modify campus policy such that write-offs do not occur before accounts are more than one year past due and continue to actively pursue collection in the meantime.

Campus Response

We concur. Procedures have been changed to send uncollectible accounts receivable exceeding \$1,000 to SCO for discharge of accountability. Progressively stronger collection letters are being drafted for use in collection efforts. Procedure manuals have been changed to reflect that accounts may not be written off until they are at least one year old and have been deemed uncollectible. New procedures will be completed by December 2003.

Recommendation 5

We recommend that the campus strengthen procedures to obtain STD. 204 forms from vendors.

Campus Response

We concur. All procurement task manuals include required procedures regarding Vendor 204 forms. Proper procedures will be reemphasized to procurement team members to ensure compliance with this state regulation. This will be completed by December 2003.

Recommendation 6

We recommend that the campus:

- a. Review the check writing process and take action to appropriately segregate duties and restrict check-writing file update responsibilities.
- b. Implement a procedure to compare the numbers from the printed checks with the check numbers entered in the check log.

Campus Response

We concur. Procedures will be rewritten and duties reassigned to ensure appropriate internal controls are maintained. Changes in procedures will be implemented by January 2004.

Recommendation 7

We recommend that the campus:

- a. Establish procedures to ensure that clearance forms are completed for all separated employees.
- b. Revise the employee clearance form to ensure that appropriate notification occurs regarding the removal of access to campus computer systems for terminating employees.

Campus Response

We concur. The campus is in the process of revising the employee clearance form to include verifying removal of access to campus computer systems. In addition Human Resources is sending a list of terminated employees weekly to the Office of Information Technology so access to campus computer systems will be terminated whether or not the clearance form has been completed. The Human Resources Office will follow up on delinquent forms to ensure they are appropriately completed. The new form and procedures will be implemented by January 2004.

Recommendation 8

We recommend that the campus:

- a. Establish and implement controls to ensure that expenditures from the Facilities Rental trust account are used solely to meet the costs associated with the public use of grounds.

- b. Review the Public Safety Operations trust account and take appropriate action to either bring the trust into compliance with the Education Code or close the account and transfer the remaining monies to the General Fund.
- c. Prepare a written trust agreement for the Instructionally Related Activities Overhead trust account, and establish and implement controls to ensure that expenditures from the trust account are used solely to meet the costs associated with instructionally related activities.
- d. Establish and implement procedures to reimburse the General Fund for the cost of support provided to maintain trust accounts related to contracts and grants.

Campus Response

We concur. The Facilities Rental account and Public Safety Operations accounts are being reviewed for compliance with the Education Code and trust documents. They will either be closed or brought into compliance. A trust agreement has been prepared for the Instructionally Related Activities Overhead trust account and a copy will be forwarded to the University Auditor's Office. A methodology has been established to determine amounts that should be reimbursed to General Fund for work related to maintaining trust accounts related to grants and contracts. Documentation verifying implementation of all parts of this recommendation will be sent by January 2004.

Recommendation 9

We recommend that the campus strengthen procedures to improve assurance that expenditures comply with state and CSU requirements.

Campus Response

We concur. The campus has implemented a new system of review for trust expenditures. Trust requisitions are reviewed for appropriateness and authorized signature before going to procurement for processing. The revised procedure will be forwarded to the University Auditor by November 2003.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 30, 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 03-04 on *FISMA*,
California State University, Stanislaus

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 30, 2003, I accept the response as submitted with the draft final report on *FISMA*, California State University, Stanislaus.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/bth

SACRAMENTO

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Marvalene Hughes, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS