

FISMA

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CMS	Common Management Systems
CSU	California State University
CSUMB	California State University, Monterey Bay
DGS	Department of General Services
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
G-I-K	Gift-in-Kind
HR	Human Resources
IAIRS	Intercollegiate Athletics, Intramurals and Recreational Sports
ID	Identification
PIMS	Personnel Information Management System
PPT	Personnel/Payroll Transaction
SAM	State Administrative Manual
SFAC	Student Fee Advisory Committee
SMIF	Surplus Money Investment Fund
STO	State Treasurer's Office
SUAM	State University Administrative Manual
TAPS	Transportation and Parking Services

EXECUTIVE SUMMARY

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete internal control audits (covering accounting and fiscal compliance practices) in accordance with the *Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by Government Code Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

We visited the California State University, Monterey Bay (CSUMB) campus from November 10, 2003, through January 16, 2004, and made a study and evaluation of the accounting and administrative control in effect as of January 16, 2004. This report represents our biennial review.

CSUMB 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 audit disclosed conditions which, in our opinion, if not corrected would result in significant errors and irregularities. Specifically, the campus did not maintain adequate internal control over any of the areas reviewed, with several of the findings duplicates of the prior FISMA audit. Areas reviewed included: cash receipts, accounts receivable, purchasing, revolving fund, cash disbursements, payroll and personnel, fixed assets, fiscal information technology, investments, and trust funds. We were especially concerned that revolving fund and bank reconciliations had not been prepared since June 2003 at which time significant unresolved/unsupported differences and a negative revolving fund cash balance existed. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, due to the effect of the weaknesses described above, CSUMB's accounting and administrative control in effect as of January 16, 2004, taken as a whole, were not 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.

The following summary provides 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 [8]

Certain activities that impact the control environment for cash receipts needed improvement. There was no written record of individuals with the combination to the safe at the campus service center and transportation and parking services; and the safe combination at the main cashier's office and the department of intercollegiate athletics, intramurals and recreational sports was not changed following the separation of individuals knowing the present combination from the respective areas. Additionally, checks were not always restrictively endorsed on the day of receipt at the main cashier's office, accountability for cash receipts was not localized at admissions and records, and revenue from parking permits and coin parking meters was not well controlled. The uncleared collections account had not been reconciled since December 2002 and totaled \$708,898 at November 30, 2003. In addition, accumulated deposits of \$25,000 were not remitted to the State Treasury by the first day of the week following the accumulation, and the campus did not document notification to the State Treasurer of daily deposits in excess of \$100,000. Only two remittances totaling \$3,750,000 were processed between July and November 2003. Further, six newly established fees did not receive adequate consideration by the campus fee committee or proper approval.

ACCOUNTS RECEIVABLE [14]

Billings for services rendered were not timely invoiced. A review of 20 invoices issued between May and June 2003 disclosed that 18 were prepared between 3 to 23 months after the services were provided. In addition, the campus was not pursuing all available options to resolve delinquent accounts receivable. A review of ten student receivable balances over \$1,000 and two years old disclosed that none of the balances had been contracted to a collection agency, and outstanding accounts receivable balances over two years old exceeded \$200,000 as of October 31, 2003.

PURCHASING [16]

Access to the vendor master file was not adequately controlled. We found that nine user IDs had update access to vendor information, which included four staff members from purchasing, one from accounting, two student employees, and two test accounts. In addition, campus procurement card controls did not ensure that appropriate purchases were made, timely review and approval occurred, or accounts were canceled for separated employees. For example, multiple or single purchases were made from a vendor that exceeded the single purchase limit, prohibited purchases of maintenance were made, procurement

card statements were not timely submitted to accounts payable, and two procurement card accounts were active for employees who separated more than one year ago.

REVOLVING FUND [18]

The revolving fund reconciliation was not complete and timely, which is a repeat finding from our prior FISMA audit. The most recent reconciliation was for June 2003. The reconciliation reported negative amounts for vendor expense advances and revolving fund cash totaling \$1,316,822 and included unresolved items from the prior accounting system totaling \$232,327. In addition, change and purchase funds were not appropriately counted and assigned. Documented approval from the Department of Finance was not on file for both of the change and purchase funds in excess of \$500, independent counts for 15 of the 16 change and purchase funds were not performed at the prescribed frequency, two change and purchase funds could not be located for an independent count, and one change fund did not have a receipt of custody for the amount advanced from the revolving fund. Further, a change fund custodian had subdivided a fund without obtaining a receipt of custody from the other employees involved.

CASH DISBURSEMENTS [20]

Bank reconciliations were not timely and complete. The most recent reconciliation was for June 2003. The reconciliation did not include a reconciliation of general cash, revolving fund cash, and the agency trust fund cash account with the corresponding bank balance at the State Treasury; and the list of reconciling items included an unsupported difference of \$437,806. In addition, long outstanding checks were not processed/canceled in a timely manner. Ninety-six checks totaling \$28,144 older than one year and up to three years old were noted on the bank reconciliation. The campus did not consistently maintain a vendor data record on file for non-governmental vendors, which is a repeat finding from our prior FISMA audit report. A review of 45 payments disclosed that a vendor data record was not on file for six vendors and two forms had been received an average of 128 days after the vendor payment. Lastly, charges from the Department of General Services were not always verified for accuracy and recorded in a timely manner. Service claims for natural gas, automobile rentals, and advertising services between June and November 2003 totaling \$121,463 were not recorded until December 2003.

PAYROLL AND PERSONNEL [23]

Overtime payments were not always accurate. A review of 15 overtime payments between August 2002 and July 2003 disclosed that five payments had been miscalculated. In addition, employee separation controls did not ensure timely payment and complete documentation. Instances were noted where the final salary payment or salary advance was not completed within 72 hours after the effective separation date and a campus clearance certification was not on file for revolving fund advances, credit cards, keys, library materials, cellular telephones, pagers, and audiovisual equipment. Further, procedures for monitoring compliance with the systemwide additional employment policy were not adequately documented. Procedures were not documented to fully consider the impact on the faculty time base from the combination of primary employment and other activities, instruction, and assignments; and compilations of faculty unit employee workload records for prior periods were not retained.

FIXED ASSETS [26]

Property acquisitions and dispositions were not always properly controlled. A review of 20 property acquisitions disclosed that a gift-in-kind was not sufficiently supported by a qualified independent appraisal, eight purchases were not recorded at the appropriate purchase price, nine items gifted to the campus were not recorded at the fair market value at the date of gift, two campus identification tags did not agree with the property inventory listing, another two property items did not have a campus identification tag, and it took an average of a year to record property acquisitions into the general ledger. In addition, a review of 15 property survey reports disclosed that the documents did not always include a document number; the purchase date and original cost of the disposed property; the disposition method; the price offered, the price received, and receipt number for sold items; and a certification with the manner of disposition, disposal date, and signature and title of the officer supervising the disposal of the property.

FISCAL INFORMATION TECHNOLOGY [29]

Controls over the integrity of data files were not adequate because some individuals had Oracle IDs that allowed them to modify production PeopleSoft data.

INVESTMENTS [29]

Controls over investments did not ensure proper accounting, distribution of income, and timely planning. Investment funds were held in the general ledger investment pool account, and investment balances were not maintained for each individual trust account. In addition, investment earnings were not distributed to trust accounts, and cash flow forecasts were not prepared to document the availability of excess funds to invest and the requirement for current disbursements.

TRUST FUNDS [31]

Our review of 124 trust accounts disclosed that trust agreements were not on file in 47 instances, trust agreements showed only persons separated from the campus as authorized signers in 16 instances, and documentation had not been maintained to evidence the renewal of trust account agreements on a three-year cycle. In addition, trust fund projects did not always have positive cash and fund balances, which is a repeat finding from our prior FISMA audit. A review of trust account balances as of June 30, 2003, disclosed that 17 trust projects had negative cash and/or fund balances. Thirteen projects had negative cash balances ranging from \$19 to \$218,660, and 13 projects had negative fund balances ranging from \$19 to \$137,324.

RECONCILIATIONS [33]

Reconciliations were not always prepared, complete, and/or timely. Application fees were not reconciled to the number of applications received, which is a repeat finding from our prior FISMA audit. Compilations were prepared showing state university fees from the number of students reported on a semester basis; however, the compilations did not compare the fees reported on the subsidiary and general ledgers with identification of any specific transactions that would resolve any differences. Balances

reported on subsidiary accounts receivable aging schedules were not being reconciled to the general ledger. Reconciliations with the State Controller's balances for July through October 2003 were not completed until November 2003, and the most recent reconciliation of fixed assets was for June 2003.

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 guidelines.

SCOPE AND METHODOLOGY

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. 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 2002-2003 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 2003 to January 2004. 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

MAIN AND SATELLITE CASHIERING

Cash control weaknesses were found at the main cashier's office and at each of the four satellite cashiering areas visited.

The satellite cashiering locations reviewed included the office of admissions and records, the campus service center, the department of intercollegiate athletics, intramurals and recreational sports (IAIRS), and transportation and parking services (TAPS).

Safety of Funds

There was no written record of individuals with the combination to the safe at the campus service center and TAPS. Additionally, the safe combination at the main cashier's office and IAIRS was not changed following the separation of individuals knowing the present combination from the respective areas.

State Administrative Manual (SAM) §8024 requires changing safe combinations when employees leave a department and retaining a record listing the names of individuals with knowledge of a department's safe combination.

The campus service center and quality improvement manager and TAPS administrator stated that the respective departments had not fully considered documenting the names of employees with the knowledge of the safe combination. The directors of accounting and IAIRS stated that not changing the safe combination following the separation of personnel was attributed to oversight. The director of accounting further stated that changing the main cashier's safe combination was deemed an unnecessary cost because the safe resides in a separate secure room with a padlock entry and an alarm code, since the person who left would have no access to the room and the alarm code had been changed.

Restrictive Endorsement of Checks

Checks received were not always restrictively endorsed on the day of receipt at the main cashier's office.

We visited the main cashier's office on December 12, 2003, and found 25 checks totaling \$4,565 without restrictive endorsements. The oldest check was dated October 20, 2003.

SAM §8034.1 requires checks and other negotiable instruments to be endorsed on the day they are received.

The director of accounting stated that the checks were to be processed on behalf of campus auxiliary organizations and required research to determine the appropriate bank endorsement stamp.

Accountability for Cash Receipts

Accountability for cash receipts was not localized when multiple persons had access to the same cash box at the office of admissions and records.

SAM §8021 requires that a separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

The director of admissions and records stated that localizing cash receipts was difficult to achieve due to the limited number of personnel.

Parking Receipts

Parking permits issued at the campus service center were not reconciled to the revenue recorded in the general ledger. Additionally, coin parking meter receipt revenue tallies were not subjected to trend analysis by TAPS management to determine the reasonableness of revenues reported as compared to actual amounts deposited.

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 campus service center and quality improvement manager and TAPS administrator stated that reconciliation of parking revenue and analysis of parking meter receipts had not been previously considered.

Inadequate control over cash receipts increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Update records to show the date the safe combination last changed and the individuals who have the combination and strengthen procedures to ensure that the records are maintained current for all cashiering locations with a safe.
- b. Ensure that all checks are restrictively endorsed by the end of the day.
- c. Establish procedures to localize accountability over cash receipts in the office of admissions and records.

- d. Perform detailed reconciliations of parking permits issued to revenue recorded in the general ledger.
- e. Perform trend analysis for coin parking meter usage to establish a baseline expectation for the amount of money collected.

Campus Response

We concur and have immediately addressed these findings with the appropriate departments to strengthen procedures, improve documentation, and perform detailed reconciliations. Documentation to this effect will be submitted not later than September 2004.

UNCLEARED COLLECTIONS

The uncleared collections account was not being reconciled on a timely basis.

We found that the uncleared collections account was last reconciled in December 2002. The balance in this account as of November 30, 2003, was \$708,898.

SAM §10452 indicates that the uncleared collections account shows the amount of cash collections being checked to determine if they are to be accepted for a fund in the State Treasury or are to be refunded to payers; and a representation of the types of reimbursements that must be applied at the time they are ordered into the State Treasury.

SAM §10508 states, in part, that varying circumstances determine the clearance of uncleared collections and indicates that items should be cleared at least once each quarter.

SAM §7800 requires that subsidiary records be reconciled to the general ledger monthly.

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

The director of accounting stated that the reconciliations of the uncleared collections account were untimely due to the implementation of PeopleSoft and staffing shortages.

Insufficient control over uncleared collections limits the campus' ability to detect errors and irregularities.

Recommendation 2

We recommend that the campus prepare monthly reconciliations of the uncleared collections account in a timely manner.

Campus Response

We concur. At the time of the Financial Integrity and State Manager's Accountability Act (FISMA) audit, California State University, Monterey Bay (CSUMB) had just completed implementing the Common Management Systems (CMS) finance and human resources systems, implementing the requisite interface between Banner and the finance system, implementing the application of payment feature of Banner, and upgrading our cashiering system and one-card and meal card programs. In addition, the staff was performing year-end reporting, financial preparation, and undergoing an audit of the Generally Accepted Accounting Principles (GAAP) financial statements. Because of the additional demands on staff to undertake major implementations, perform year-end reporting in new systems, and devote time to various other audits, timely reconciliations and analyses were not done. This situation affected not only the issues leading to this specific recommendation, but many other findings identified in this audit. The campus understands and appreciates the fact that requirements for timely and accurate procedures continue no matter what disruptions may occur in the campus' ability to meet those responsibilities. The staff has since been able to refocus attention on the normal day-to-day operations. Documentation supporting being current in reconciliations will be submitted not later than October 2004.

REMITTANCES TO THE STATE TREASURY

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. We found that only two amounts totaling \$3,750,000 had been remitted to the State Treasury from July 2003 through November 2003.

Month	Number of Deposits	Total Remittances
July 2003	-	-
August 2003	-	-
September 2003	-	-
October 2003	2	\$3,750,000
November 2003	-	-

SAM §8091 requires agencies to remit all monies determined to be revenue, reimbursements, abatements, and operating revenue to the State Treasury within 30 days following the date collected, regardless of the amount, unless more frequent remittances are required by law, regulation, or circumstance. Accumulated deposits of \$25,000 will be remitted as soon as possible, but not later than the first day of the week following the accumulation.

The director of accounting stated that the infrequent remittances of monies were a result of maintaining a reserve for refunds of state university fees.

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

Recommendation 3

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

Campus Response

We concur. The campus is strengthening its procedures to ensure that monies are remitted on a timely basis. Documentation supporting being current in remittances will be submitted not later than October 2004.

LARGE DEPOSIT NOTIFICATIONS

Notification to the State Treasurer's Office (STO) concerning daily deposits for any one account in excess of \$100,000 was not documented. Therefore, we were unable to establish campus compliance with notification requirements.

SAM §8032.5 requires that the campus notify the STO whenever deposits for any one account are in excess of \$100,000 in any given day.

The director of accounting stated that the lack of documentation to evidence large deposit notification was attributed to training issues.

Without documentation, the State Treasurer could erroneously claim that it was unable to properly collateralize funds.

Recommendation 4

We recommend that the campus document its notification to the STO for deposits exceeding \$100,000.

Campus Response

We concur. We immediately trained our new staff member on this procedure, received approval from the State Controller that an e-mail of daily deposit totals was sufficient, and immediately put a daily e-mail procedure in place.

FEE AUTHORIZATION

Newly established fees were not always properly processed and approved.

We found that:

- ▶ Five new fees (graduation date change fee, late graduation application fee, printing 50 pages fee, printing 100 pages fee, and printing 150 pages fee) did not receive either consideration by the student fee advisory committee (SFAC) or the approval of the president and the chancellor.
- ▶ The campus could not provide evidence to show that the enrollment confirmation deposit fee, which had been established by the California State University (CSU) Board of Trustees, had been presented to the campus fee advisory committee and authorized by the president.

Executive Order (EO) No. 740, *The California State University Student Fee Policy*, dated April 13, 2000, requires consideration by the campus fee advisory committee prior to the president requesting the chancellor to establish a new fee or an adjustment to a current student fee.

EO No. 863, *Enrollment Confirmation Deposit Fee*, dated May 19, 2003, authorizes campus presidents to establish an enrollment confirmation deposit fee after consideration by the campus fee advisory committee.

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 dean of student life stated that student fees not receiving proper approval were attributed to insufficient documentation and oversight.

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

Recommendation 5

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. Formal requests for approval have been presented to the SFAC for new fees and for those older fees missing documentation. The SFAC's recommendations for approval have been forwarded to the president. With the exception of the enrollment confirmation deposit fee, if the president concurs with the recommendations of the SFAC, a request for approval will subsequently be forwarded to the chancellor's office. The enrollment confirmation deposit fee has been recommended by the SFAC and is awaiting presidential authorization as the final step in the process as the Board of Trustees has authorized it previously. Additionally, procedures are being implemented to ensure

proper processing and approval of fees. These procedures will be fully developed during the summer, and will be in place for the fall semester, 2004.

ACCOUNTS RECEIVABLE

BILLINGS FOR SERVICE

Billings for services rendered were not timely invoiced.

A review of 20 invoices issued from May through June 2003 disclosed that 18 were prepared between 3 to 23 months after the services were provided.

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

The director of accounting stated that the billings for services were not processed in a timely manner as a result of staffing shortages.

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

Recommendation 6

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

Campus Response

We concur. System implementation and shortages of staff produced a backlog in the billing and collection process. The campus hired a temporary employee to eliminate the backlog on all billings. Collection and processes are now in place whereby billing for services is part of daily routine and activity. As of the date of this response, billing is current.

COLLECTION AND WRITE-OFF

All available options to resolve delinquent accounts were not pursued. This is a repeat finding from our prior FISMA audit.

Collection

Our review of ten student receivable balances over \$1,000 and two years old disclosed that none of the balances had been contracted to a collection agency.

Write-Off

The campus was not writing off outstanding accounts receivable on a timely basis.

Our review of outstanding accounts receivable balances as of October 31, 2003, disclosed the following:

Aging	Total
2 to 3 years old	\$ 52,146
3 to 4 years old	67,828
Over 4 years old	102,200

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables. Further, once the address of the debtor is known, the accounting office will send a sequence of three collection letters; if the collection letters are unsuccessful, an analysis should be prepared with additional collection efforts to include contracting with a collection agency. Further, if all reasonable collection procedures do not result in payment, departments should initiate one or more actions including, but not limited to, discharge from accountability of uncollectible amounts due from private entities.

EO No. 616, *Discharge of Accountability*, dated April 19, 1994, delegates authority to the campus for local adjustments of up to \$1,000 that are determined to be uncollectible or where the amount does not justify the collection costs. Discharge of accountability does not release the debtor from their obligation to the campus.

The director of accounting stated that the campus was evaluating another collection agency to pursue overdue account balances. She further stated that outstanding accounts receivable balances were not written off due to staffing shortages.

Inadequate control over delinquent accounts reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

Recommendation 7

We recommend that the campus strengthen controls over the collection and write-off of receivables.

Campus Response

We concur. Additional procedures for collection and write-off have been put in place. A review of all balances at May 31 will be evaluated, appropriate allowances created, and when collection procedures have been exhausted, accounts will be written off either through direct write-off or discharge of accountability procedures as part of the year-end closing at June 30, 2004.

PURCHASING

VENDOR MASTER FILE

Access to the vendor master file was not adequately controlled.

We found that nine user IDs had update access to vendor information, which included four staff members from purchasing, one from accounting, two student employees, and two test accounts.

SAM §8080.1 states that each state agency should establish and maintain an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, “No one person shall perform more than one of the following [eleven] types of duties: (3) Maintaining records file and operating mechanized equipment...(4) Initiating disbursement document...(5) Approving disbursement document...(6) Inputting disbursement information.”

SAM §20050 states 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.

The associate director of information systems stated that the implications of the business application were not fully considered.

Not properly limiting access to the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 8

We recommend that the campus review access to the vendor master file and take appropriate action to segregate duties and restrict vendor update responsibilities.

Campus Response

We concur. The campus is in process of reviewing the method by which access to the vendor file, that reflects the corresponding segregation of duties, can be implemented in the current financial system. The campus anticipates resolution before September 2004.

PROCUREMENT CARDS

Campus procurement card controls did not ensure that appropriate purchases were made, timely review and approval occurred, or accounts were canceled for separated employees.

Our review of 11 procurement card statements between July and September 2003 disclosed that:

- ▶ In one instance, multiple purchases from a vendor were recorded on the same date that exceeded the single purchase limit. In another instance, a purchase exceeded the single purchase limit of \$1,000.
- ▶ In eight instances, a payment was made for maintenance.
- ▶ In three instances, the procurement card statement was received by accounts payable over five working days from receipt.
- ▶ In one instance, a statement showed the cardholder's certification annotated with a specimen signature stamp.

In addition, our review of active procurement accounts as of November 2003 disclosed that two cards issued to employees who had separated from the campus in January and June 2002 had not been canceled.

The CSUMB *Procurement Credit Card Handbook* indicates that:

- ▶ The procurement card is the method of payment for purchases costing less than \$1,000 (under *General Information*).
- ▶ Prohibited uses include splitting of purchases to circumvent the dollar limit and purchases for maintenance services (under *Prohibited Uses*).
- ▶ Cardholders are instructed to forward the procurement card statement to accounts payable within five working days from receipt (under *Bank Statement*).
- ▶ Employee exit/clearing procedures include a return of the procurement card to the purchasing department (under *Return of Cards*).

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 director of business and support services stated that instances of non-compliance with the campus procurement card procedures were attributed to oversight by the cardholders.

Insufficient procurement card control increases the risk of loss from inappropriate acts.

Recommendation 9

We recommend that the campus:

- a. Establish procedures to prevent and detect splitting of purchases to avoid credit card limits.

- b. Strengthen controls to discourage inappropriate purchases and ensure the timely reconciliation of procurement card charges.
- c. Prohibit the use of signature stamps to certify procurement card statements.
- d. Establish procedures to promptly cancel procurement cards for employees separated from the campus.

Campus Response

We concur. Procedures to minimize artificial splitting of orders, prevent inappropriate purchases, and ensure timely reconciliations will be implemented by September 2004. Prohibition of signature stamps is currently being communicated to appropriate personnel on campus. The procedures to cancel cards assigned to personnel in the process of separating employment have been incorporated into the campus' overall separation procedures.

REVOLVING FUND

REVOLVING FUND RECONCILIATIONS

The revolving fund reconciliation was not complete and timely. This is a repeat finding from our prior FISMA audit.

During our review of revolving fund reconciliations in January 2004, we noted that:

- ▶ The most recent revolving fund reconciliation was for June 2003.
- ▶ The reconciliation reported negative amounts for vendor expense advances and revolving fund cash totaling \$1,316,822.
- ▶ The reconciliation included unresolved items from the prior accounting system totaling \$232,327 for reimbursements due to the General Fund, salary advances, and travel advances.

SAM §7920 requires a reconciliation of two or more accounts or other record kept by an agency such as reconciliation of office revolving fund assets to the amount withdrawn.

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

The director of accounting stated that the untimely and incomplete revolving fund reconciliations were attributed to the implementation of PeopleSoft and staffing shortages.

Insufficient controls over revolving fund reconciliations limit the campus' ability to detect errors and irregularities.

Recommendation 10

We recommend that the campus complete revolving fund reconciliations on a monthly basis and ensure that all reconciling items are adequately identified, supported, and cleared in a timely manner.

Campus Response

The campus concurs. Documentation supporting being current in monthly reconciliations will be submitted not later than October 2004.

CHANGE AND PURCHASE FUNDS

Change and purchase funds were not appropriately counted and assigned.

Our review of change and purchase funds disclosed that:

- ▶ Documented approval from the Department of Finance was not on file for the two change and purchase funds that exceeded \$500.
- ▶ Fifteen of the sixteen change and purchase funds were not subjected to independent counts as frequently as required between July 2002 and November 2003.
- ▶ Two change and purchase funds could not be located for an independent count in November 2003.
- ▶ A purchase fund in contracts and grants did not have a receipt of custody for the entire amount advanced. In addition, a change fund in the campus service center had been subdivided by the custodian without obtaining a receipt of custody from the other employees involved.

SAM §8111.1 states that each change fund in excess of \$500 will be established only after approval of the Fiscal Systems and Consulting Unit in the Department of Finance.

SAM §8111.2 states that transfers of custody will be accomplished only after a personal audit of the fund has been made by the employees directly concerned, and a receipt has been given by the newly assigned custodian to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting department. An employee other than the custodian of the change 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 accounting stated that infrequent counts for funds were attributed to staffing shortages. She further stated that the funds in excess of \$500 were long established and the lack of documentation for custody needed improvement. She added that the person assigned to count cash could not locate the two missing funds because that person did not contact the appropriate personnel.

Inadequate administration of change and purchase funds increases the risk of loss and inappropriate use of state resources.

Recommendation 11

We recommend that the campus:

- a. Submit a request to the Department of Finance for approval of all change funds in excess of \$500 and any subsequent increases.
- b. Strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.
- c. Investigate the whereabouts of the two missing change and purchase funds and take appropriate action.
- d. Issue appropriate receipts of custody for the contracts and grants' purchase fund and the campus service center change fund.

Campus Response

We concur. The campus is in process of gaining requisite approval of all change funds over \$500. Independent counts are being performed at the prescribed frequency. The issue with the two missing change funds has been resolved. The contracts and grants purchase fund and the campus service center change fund issues have been resolved. Documentation of the approvals will be provided not later than September 2004.

CASH DISBURSEMENTS

BANK RECONCILIATIONS

Bank reconciliations were not timely and complete. During our review of bank reconciliations in January 2004, we noted that:

- ▶ The most recent bank reconciliation was for June 2003.
- ▶ The campus did not reconcile general cash, revolving fund cash, and the agency trust fund cash account with the corresponding bank balance at the State Treasury.

- ▶ The list of reconciling items for the June 2003 bank reconciliation included an unsupported difference of \$437,806 and evidence of the date completed was not shown.

SAM §7923 requires departments reconcile their end-of-the-month bank and centralized State Treasury system account balances monthly showing fund's share on the bank reconciliation and an explanation on the reconciliation of every reconciling item between the bank and the department's records.

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

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

The director of accounting stated that the untimely and incomplete bank reconciliations were attributed to the implementation of PeopleSoft and staffing shortages.

When bank reconciliations are not timely and reconciling items are not promptly resolved, the campus' ability to detect errors and irregularities is diminished, increasing the risk of loss of state funds.

Recommendation 12

We recommend that the campus complete bank reconciliations on a monthly basis and ensure that all reconciling items are adequately identified, supported, and promptly resolved.

Campus Response

We concur. Documentation supporting being current in monthly reconciliations will be submitted not later than October 2004.

LONG OUTSTANDING CHECKS

Long outstanding checks were not processed/canceled in a timely manner.

Our review of the most recent bank reconciliation, dated June 30, 2003, disclosed 96 checks totaling \$28,144 older than one year with the oldest check dated April 2000.

SAM §8042 requires a stop payment request be sent to the State Treasurer's office for all uncashed checks timed to arrive at least one week prior to the end of the one-year period of negotiability.

The manager of general accounting and financial reporting stated that the long outstanding checks were not processed in a timely manner due to staffing shortages.

Not processing long outstanding checks increases the risk of misappropriation and requires additional effort to review outstanding checks during the reconciliation process.

Recommendation 13

We recommend that the campus promptly process long outstanding checks as required by SAM §8042 and establish procedures to ensure that future long outstanding checks are processed in a timely manner.

Campus Response

We concur. The campus is currently reviewing its stale-dated checks, and will properly deal with them according to our strengthened, written procedures. The campus will notify payees when checks become 180 days old and either cancel and reissue, or send them to the State Controller when they become one year old.

VENDOR DATA RECORD

The campus did not consistently maintain a vendor data record (Form STD. 204) on file for non-governmental vendors. This is a repeat finding from our prior FISMA audit.

Our review of 45 payments disclosed that Form STD. 204 was not on file for six vendors and two forms had been received an average of 128 days after the vendor payment.

SAM §8422.19 requires a completed STD. 204 form be kept on file for payments of at least \$600 to all non-governmental entities and payments to individuals, medical corporations, and partnerships. If the vendor does not complete the STD. 204 form and the required data is not otherwise provided, the payer needs to withhold a prescribed percentage for income taxes.

United States Code Annotated Title 26 §6721 indicates that a state agency that fails to obtain the taxpayer 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.

The director of business and support services stated that certain STD. 204 forms were misfiled.

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

Recommendation 14

We recommend that the campus strengthen controls over maintenance of vendor data records (Form STD. 204) for all non-governmental vendors.

Campus Response

We concur. Procedures to strengthen controls for non-governmental vendor data records will be fully implemented not later than September 2004 in conjunction with Recommendation 8 above.

DEPARTMENT OF GENERAL SERVICES CHARGES

Department of General Services (DGS) charges were not always verified for accuracy and recorded in a timely manner.

During our review of claims from the DGS submitted to the campus, we noted that:

- ▶ Invoices were not always reconciled to the claims to determine the propriety of the charges.
- ▶ Service claims for natural gas, automobile rentals, and advertising services between June and November 2003 totaling \$121,463 were not recorded until December 2003.

SAM §8422.1 states that verifying the accuracy of invoices includes determining whether items have been received.

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 manager of general accounting and financial reporting stated that the late recording of service claims was attributed to staffing shortages. She further stated that invoice copies were forwarded to the respective departments with instructions to contact the accounting department for any discrepancies.

Insufficient control over processing DGS charges increases the risk of errors and irregularities.

Recommendation 15

We recommend that the campus strengthen controls over the verification and recording of charges from the DGS.

Campus Response

We concur. The campus has taken steps to ensure that DGS charges are verified and recorded properly and documentation will be provided by August 2004.

PAYROLL AND PERSONNEL

OVERTIME PAYMENTS

Overtime payments were not always accurate.

Our review of 15 overtime payments processed between August 2002 and July 2003 disclosed that five had been miscalculated.

Article 23.2 of the *Collective Bargaining Agreement between the CSU Board of Trustees and the State Employees Trade Council for 2002-2005* indicates that overtime shall be compensated at one and one half times the employee's regular hourly rate. For purposes of calculating overtime, the regular hourly rate of pay is determined by dividing the monthly salary amount by 173.33 hours.

Article 13.9 of the *Collective Bargaining Agreement between the CSU Board of Trustees and the Statewide University Police Association for 2001-2004* indicates that all overtime hours worked shall be compensable by cash or compensatory time off at a rate of one and one-half times the straight rate of pay for authorized overtime work.

The payroll manager stated that the miscalculated overtime wage payments were attributed to errors.

Inaccurate payment for overtime increases the risk of non-compliance with collective bargaining agreements.

Recommendation 16

We recommend that the campus strengthen procedures to ensure that overtime wages are paid in accordance with respective bargaining unit contracts.

Campus Response

We concur. The technicians and the payroll manager, prior to input into the Personnel Information Management System (PIMS), now review all individual bargaining unit calculations to ensure accuracy before the payment issues.

EMPLOYEE SEPARATION

Employee separation procedures did not ensure timely payment and complete documentation.

Our review of 15 employee separations between January and November 2003 disclosed that:

- ▶ In six instances, the final salary payment or salary advance was not completed within 72 hours after the effective separation date.
- ▶ In nine instances, a campus clearance certification was not on file for revolving fund advances.
- ▶ In ten instances, a campus clearance certification was not on file for credit cards, keys, and library materials.
- ▶ In 13 instances, a campus clearance certification was not on file for cellular telephones, pagers, and audiovisual equipment.

California Labor Code §201 indicates that wages earned and unpaid at the time an employer discharges an employee are due and payable within 72 hours.

California Labor Code §202 indicates that wages earned and unpaid at the time an employee quits are due and payable not later than 72 hours afterward, unless the employee has given 72 hours previous notice of their intention to quit, in which case the employee is entitled to their wages at the time of quitting.

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

The payroll manager stated that the late final salary payment and advances were attributed to late notices from the former employees' department. The manager of benefits, systems and professional development stated that the e-mail messages certifying clearance were not retained on file.

Insufficient control over employee separations increases the risk of late wage payments, loss of state funds, and inappropriate use of state resources.

Recommendation 17

We recommend that the campus review and strengthen employee separation procedures to ensure timely payment of wages and complete clearance documentation.

Campus Response

We concur. The payroll department is now completing exit interviews with all separating employees to ensure accurate and timely payments within the legal 72-hour time frame. To ensure timely completion of clearance documentation, all departments must respond to the clearance notification indicating whether the employee has outstanding obligations in their departments. If there are outstanding items, notification will be sent to the department manager to take action. Copies of these responses are being maintained electronically in the human resources database.

ADDITIONAL EMPLOYMENT

Procedures for monitoring compliance with the CSU additional employment policy were not adequately documented.

Our review of campus procedures disclosed that:

- ▶ Procedures were not documented to sufficiently consider the impact on the time base from the combination of primary employment, sponsored program activities, continuing education instruction, and special consulting assignments.
- ▶ Compilations of faculty unit employee workload records for prior periods were not retained. Therefore, we were unable to establish campus compliance with the collective bargaining agreement.

CSU directive Human Resources (HR) 2002-05, *Additional Employment Policy*, dated February 19, 2002, requires the campus to determine the extent of an employee's CSU workload prior to appointment to any position. It further indicates that the campus is responsible for developing appropriate guidelines for implementation and for developing procedures for prior approval and monitoring of all additional employment.

Articles 36.1 and 36.4 of the *Collective Bargaining Agreement between the CSU Board of Trustees and the California Faculty Association*, for May 14, 2002, through June 30, 2004, indicate that additional employment shall refer to any employment compensated by CSU, funded by the General Fund or non-General Funds including CSU auxiliaries, that is in addition to the primary or normal employment of a faculty unit employee. The total additional employment of a faculty unit employee shall not exceed a total of 25 percent overage. Overage is calculated as a percentage of full-time workload, or, when appropriate, full-time time base.

The director of academic personnel stated that procedures for evaluating time-base activities were provided verbally. She further stated that retention of prior period workload records was not previously considered.

Inadequate documentation of procedures and records for monitoring additional employment increases the risk of non-compliance with the CSU policy and the collective bargaining agreement.

Recommendation 18

We recommend that the campus document procedures for prior approval and monitoring of all additional employment, including record retention, and distribute the procedures to all employees involved in the process.

Campus Response

We concur. Academic personnel will provide written documentation for procedures currently in place for the monitoring of additional employment for faculty by August 15, 2004. Training will continue to be provided. Records will be kept for three years. The payroll manager will provide additional training for the payroll technicians in usage of PIMS employment history. All personnel/payroll transactions (PPTs) will be reviewed and signed by the payroll manager prior to inputting the information into the PIMS database.

FIXED ASSETS

PROPERTY ACCOUNTING

Controls over property did not ensure that acquisitions were properly valued, tagged, inventoried, and recorded in a timely manner.

Our review of 20 property acquisitions disclosed that:

- ▶ In one instance, the gift-in-kind (G-I-K) valuation of \$70,000 was not supported by a qualified independent appraisal.
- ▶ In eight instances, the property value was not recorded at purchase price plus incidental costs incurred to put the item into place and ready for its intended use.
- ▶ In nine instances, property gifted to the campus was not recorded at the fair market value at the date of gift.
- ▶ In two instances, property did not have a campus identification tag, and in two other instances, the campus identification tag did not agree to the property inventory listing.
- ▶ It took an average of a year to record property acquisitions in the general ledger.

EO 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 the Council for Advancement and Support of Education (CASE).

CASE *Management Reporting Standards* state that G-I-K with fair market values of more than \$5,000 should be counted at the values placed on them by qualified independent appraisers, as required by the Internal Revenue Service for valuing non-cash charitable contributions.

SAM §8631 requires purchased assets to be recorded at cost. Cost is defined as the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

SAM §8634 requires property acquired by gift to be recorded at the fair market value on the date the gift is received.

SAM §8650 requires the campus to record the property identification number on a property inventory listing.

SAM §8651 requires that all state property be tagged after acquisition.

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 director of planned giving, university advancement, stated that the G-I-K valuation was supported by an e-mail message from a campus development officer. The director of business and support services stated that the instances relating to valuation and tagging property were attributed to oversight. The director of accounting stated that the delay for recording property acquisitions in the general ledger was due to a property inventory count with an external vendor and staffing shortages.

Insufficient control over property acquisitions increases the risk of misstated property records and theft or loss of state property.

Recommendation 19

We recommend that the campus strengthen controls to ensure compliance with *CASE Management Reporting Standards*, accurate property valuation, properly tagged property, and timely recording of property acquisitions.

Campus Response

We concur. Additional procedures will be implemented prior to September 2004 to assure compliance, accuracy of valuation, and proper tracking through tagging and recording.

PROPERTY SURVEY REPORTS

Property survey reports were not properly completed.

Our review of 15 property survey reports between June 2000 and April 2003 disclosed that:

- ▶ None of the property survey reports included a document number.
- ▶ In ten instances, the property survey report did not show the purchase date and original cost of the disposed property.
- ▶ In eight instances, the property survey report did not show the disposition method.
- ▶ In one instance, the property survey report did not show the price offered, price received, and receipt number for sold items.
- ▶ In 14 instances, the property survey report did not show certification of disposal, disposition method, disposal date, and signature and title of the officer supervising the disposal of the property.

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 requires property survey reports to show a document number, purchase date of the disposed property, original cost of the disposed property, disposition method, price offered for sold items, price received for sold items, receipt number for sold items, certification of disposal, and the title of the officer supervising the disposal of the property.

The director of business and support services stated that the data was recorded in the property inventory system but not on the property survey reports.

Incomplete property survey reports reduce accountability over the disposal of state property.

Recommendation 20

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

Campus Response

We concur. Additional property survey procedures will be developed, implemented, and communicated to the campus prior to September 2004.

FISCAL INFORMATION TECHNOLOGY

Some individuals had Oracle IDs that allowed them to modify production PeopleSoft data.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective account and password management. Effective account management is considered to include an appropriate authorization and monitoring of accounts that have access to production data files.

The associate director of information systems stated that guidelines had not yet been established for monitoring the use of production Oracle accounts.

Inadequate control over the use and monitoring of accounts with access to production data increases the risk of unauthorized and undetected modification of production data.

Recommendation 21

We recommend that the campus implement a process for authorizing and monitoring the use of IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. CSUMB tracks the authorization by using an Oracle ID against the PeopleSoft database with an Oracle ID request form. The employee requesting the Oracle ID must obtain approval by his/her immediate supervisor/manager and the associate director of information systems and network services. CSUMB will monitor the usage of Oracle ID(s) as soon as the report is available from Unisys in Salt Lake City, then we will match the report with the Oracle ID request form. All processes to enhance current ID access will be implemented by September 2004.

INVESTMENTS

Controls over investments did not ensure proper accounting, distribution of income, and timely planning.

Specifically, we noted that:

- ▶ Investment balances were not maintained for each individual trust. The funds were held in the general ledger investment pool account.
- ▶ Investment earnings were not distributed to trust accounts.
- ▶ Cash flow forecasts were not prepared to document the availability of excess funds to invest and the requirement for current disbursements.

SAM §19420 requires that a subsidiary ledger will be maintained containing an account for each trust for which money or securities are held.

SAM §19460 states that trust money not under the control of the State Treasurer should be invested only if the interest earnings will accrue to the individual accounts benefiting a group of students.

State University Administrative Manual (SUAM) §3824 states that it is the responsibility of the campus to maximize the investment of surplus cash in order to generate the greatest amount of interest income possible. Interest income must be credited to the appropriate fund, subfund, or account.

The director of accounting stated that certain investment procedures were long-standing campus practices and staffing shortages did not permit more extensive analysis.

Inadequate control over investments increases the risk of accounting errors and investment earnings not being maximized.

Recommendation 22

We recommend that the campus:

- a. Reconcile the investment balances within each trust project from inception and going forward into future fiscal years.
- b. Allocate investment income within the general ledger to the individual accounts that comprise the investment pool.
- c. Analyze, forecast, and document cash flow activity on a monthly basis.

Campus Response

We concur, conceptually. With the relatively small amount of excess money held in trust, the low current rate of return, and the limited staff resources to perform such analysis, forecasting, and cash management, the campus has chosen to remit excess cash to the State Controller's Office to be invested in a Surplus Money Investment Fund (SMIF) and to not allocate the income. Effective with

the new fiscal year, the campus will implement the same methodology of reconciling and accounting for investments as is currently in place in the CSUMB Foundation. Documentation will be provided not later than October 2004.

TRUST FUNDS

TRUST AGREEMENTS

Trust agreements were not always on file and updated.

Our review of 124 trust accounts disclosed that:

- ▶ In 47 instances, a trust account agreement was not on file.
- ▶ In 16 instances, the trust agreement showed only persons separated from the campus as authorized to withdraw or expend funds.
- ▶ Documentation had not been maintained to evidence the renewal of trust account agreements on a three-year cycle.

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.

The fourth directive on the CSUMB trust agreement indicates that the account will be reviewed every three years.

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 director of accounting stated that the lack of documented trust agreements was attributed to the implementation of PeopleSoft. She further stated that the outdated trust agreements were the result of staffing shortages and the campus had not previously considered documenting their review and renewal of trust projects.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss due to poor trust fund management.

Recommendation 23

We recommend that the campus strengthen controls necessary to maintain complete and up-to-date trust agreements for all trust projects.

Campus Response

We concur. The campus has taken a complete inventory of trust agreements, obtained current documents when necessary, and tightened controls to ensure proper documentation is in place prior to a trust fund being established.

TRUST BALANCES

Trust fund projects did not always have positive cash and fund balances. This is a repeat finding from our prior FISMA audit.

Our review of trust account balances as of June 30, 2003, disclosed that 17 trust projects had negative cash and/or fund balances. Thirteen projects had negative cash balances ranging from \$19 to \$218,660, and 13 projects had negative fund balances ranging from \$19 to \$137,324.

SUAM §3710.01 indicates that each trust project must maintain a positive cash balance and a positive fund balance.

The director of accounting stated that the negative cash and fund balances were attributed to the implementation of PeopleSoft.

Inadequate control over trust projects increases the risk of monetary loss and lack of funds for trust disbursements.

Recommendation 24

We recommend that the campus strengthen controls over trust fund administration to ensure that trust projects maintain positive cash and fund balances.

Campus Response

We concur. The campus had previously viewed only certain related trusts in a combined manner with a positive balance in one offsetting a negative balance in the related trust. All trusts will be viewed entirely separately in the future to assure that all, individually, have positive cash and fund balances. Any trusts that should be combined will be done so by effecting new trust agreements.

RECONCILIATIONS

Reconciliations were not always prepared and complete; those that were prepared were not done so in a timely manner.

During our review of reconciliations in January 2004, we noted that:

- ▶ Application fees were not reconciled to the number of applications received. This is a repeat finding from our prior FISMA audit.
- ▶ Compilations were prepared showing state university fees from the number of students reported on a semester basis. However, the compilations did not compare the fees reported on the subsidiary and general ledgers with identification of any specific transactions that would resolve any differences.
- ▶ Balances reported on subsidiary accounts receivable aging schedules were not being reconciled to the general ledger.
- ▶ Reconciliations with the State Controller's balances for July through October 2003 were not completed until November 2003. In addition, reconciliations of agency accounts did not always show the preparer's name and date prepared.
- ▶ The most recent reconciliation of fixed assets was for June 2003. This is a repeat finding from our prior FISMA audit.

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 §7800 requires that subsidiary records be reconciled to the general ledger monthly.

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

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

SAM §7921 requires a reconciliation of agency accounts with the like accounts maintained by the State Controller.

SAM §7924 requires that agencies reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger at least quarterly or monthly depending upon the volume of property transactions.

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 director of accounting stated that reconciliation issues were attributed to the implementation of PeopleSoft and staffing shortages.

Not completing reconciliations in a timely and complete manner compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 25

We recommend that the campus strengthen procedures to ensure that reconciliations are completed in a timely manner and reconciling items are adequately supported and promptly resolved.

Campus Response

We concur. Documentation supporting being current in reconciliations, including adequate supporting detail and resolution of outstanding items, will be submitted not later than October 2004.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Peter P. Smith	President
Maria Amezquita	Budget Specialist, Transportation and Parking Services (TAPS)
Deanna Aromin	Accounts Payable Technician
Terryn Ashley	Payroll Technician
George Ball	Property Coordinator
Yolanda Barba	Lead Customer Service Specialist, Campus Service Center
Debra Barbe	Administrative Analyst, University Police
Ursula Borg	Academic Personnel Representative
Valarie Brown	Director, Admissions and Records
Ann Castle	Buyer, Purchasing
Sharon Davis	Auxiliary Accounting Manager
Gina Encallado	Buyer, Purchasing
Charles Fisher	Travel Coordinator
John Fitzgibbon	Associate Vice President, Administration and Finance
Veronica Flores	Manager, Campus Service Center and Quality Improvement
Christine Frederick	Interim Manager, Cashiering and Student Accounting
Gretchen Fuentes	Manager, Benefits, Systems and Professional Development
Daniel Granger	Director, Distributed Learning and Extended Education
Michelle Hill	Special Projects, Records and Budget Coordinator, Admissions and Records
Troy Holt	Administrator, TAPS
Julia Hubbard	Accounting Technician, Intercollegiate Athletics, Intramurals and Recreational Sports (IAIRS)
Dan Johnson	Vice President, Administration and Finance
Gehane Kiama	Manager, Human Resources, CSUMB Foundation
Andrew Klingelhofer	Dean of Student Life
Susan Koch	Manager, General Accounting and Financial Reporting
April Lee	Assistant to the Associate Vice President, Human Resources
Melanio Lorenzo	Accountant, CSUMB Foundation
Maria Magallan	Cashier
Jay McTaggart	Lieutenant, University Police
Mark Miller	Coordinator, Admissions and Records
Yolanda Munoz	Financial Analyst and Reconciliation Accountant
Irazu Ortiz Ma Suy	Community Service Specialist, University Police
Mary Roberts	Director, Academic Personnel
Marlene Sabanal	Accounts Payable Technician
Wesley Scheibly	Payroll Manager
Karen Sellick	Program Coordinator, Distributed Learning and Extended Education
Ronald Smith	Associate Director, Information Systems
Ruth Stipp	Director, Accounting
Richard Taylor	Director, Business and Support Services
Peter Torrecillas	Work Control Coordinator, Facilities Services and Operations
William Trumbo	Director, IAIRS

APPENDIX A

Alvin Watson
Stephen Weldon
Carol Zabala

Property Clerk
Director of Planned Giving, University Advancement
Administrative Analyst, IAIRS

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.



CALIFORNIA STATE UNIVERSITY
Monterey Bay

OFFICE OF THE VICE PRESIDENT
FOR ADMINISTRATION AND FINANCE

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May 14, 2004

Mr. Larry Mandel
University Auditor
California State University
401 Golden Shore, 4th Floor
Long Beach, California 90802

RECEIVED
UNIVERSITY AUDITOR

MAY 17 2004

THE CALIFORNIA STATE
UNIVERSITY

Subject: FISMA Audit Report #03-06

Dear Larry

In response to the recommendations forwarded to President Smith in April pursuant to the subject report, I am attaching the campus response to those recommendations. Please contact me if you have any questions regarding this submittal.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dan Johnson", with a long horizontal line extending to the right.

Dan Johnson
Vice President for Administration & Finance

Attachment

c: Peter Smith
John Fitzgibbon

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**FISMA
AUDIT REPORT NO. 03-06**

CASH RECEIPTS

MAIN AND SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Update records to show the date the safe combination last changed and the individuals who have the combination and strengthen procedures to ensure that the records are maintained current for all cashiering locations with a safe.
- b. Ensure that all checks are restrictively endorsed by the end of the day.
- c. Establish procedures to localize accountability over cash receipts in the office of admissions and records.
- d. Perform detailed reconciliations of parking permits issued to revenue recorded in the general ledger.
- e. Perform trend analysis for coin parking meter usage to establish a baseline expectation for the amount of money collected.

Campus Response

We concur and have immediately addressed these findings with the appropriate departments to strengthen procedures, improve documentation, and perform detailed reconciliations. Documentation to this effect will be submitted not later than September 2004.

UNCLEARED COLLECTIONS

Recommendation 2

We recommend that the campus prepare monthly reconciliations of the uncleared collections account in a timely manner.

Campus Response

We concur. At the time of the FISMA audit, CSUMB had just completed implementing the CMS Finance and HR systems, implementing the requisite interface between Banner and the finance system, implementing the application of payment feature of Banner, and upgrading our cashiering system and one-card and meal card programs. In addition, the staff was performing year-end reporting, financial preparation and undergoing audit of the GAAP financial statements. Because of the additional demands on staff to undertake major implementations, perform year-end reporting in new systems, and devote time to various other audits, timely reconciliations and analyses were not done. This situation affected not only the issues leading to this specific recommendation, but many other findings identified in this audit. The campus understands and appreciates the fact that requirements for timely and accurate procedures continue no matter what disruptions may occur in the campus' ability to meet those responsibilities. The staff has since been able to refocus attention on the normal day-to-day operations. Documentation supporting being current in reconciliations will be submitted not later than October 2004.

REMITTANCES TO THE STATE TREASURY**Recommendation 3**

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

Campus Response

We concur. The campus is strengthening its procedures to ensure that monies are remitted on a timely basis. Documentation supporting being current in remittances will be submitted not later than October 2004.

LARGE DEPOSIT NOTIFICATIONS**Recommendation 4**

We recommend that the campus document its notification to the STO for deposits exceeding \$100,000.

Campus Response

We concur. We immediately trained our new staff member on this procedure, received approval from State Controller that an e-mail of daily deposit totals was sufficient, and immediately put a daily e-mail procedure in place.

FEE AUTHORIZATION

Recommendation 5

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. Formal requests for approval have been presented to the Student Fee Advisory Committee for new fees and for those older fees missing documentation. The SFAC's recommendations for approval have been forwarded to the President. With the exception of the Enrollment Confirmation Deposit Fee, if the President concurs with the recommendations of the SFAC, a request for approval will subsequently be forwarded to the Chancellor's Office. The Enrollment Confirmation Deposit Fee has been recommended by the SFAC and is awaiting Presidential authorization as the final step in the process as the Board of Trustees has authorized it previously. Additionally, procedures are being implemented to ensure proper processing and approval of fees. These procedures will be fully developed during the summer, and will be in place for the fall semester, 2004.

ACCOUNTS RECEIVABLE

BILLINGS FOR SERVICE

Recommendation 6

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

Campus Response

We concur. System implementation and shortages of staff produced a backlog in the billing and collection process. The campus hired a temporary employee to eliminate the backlog on all billings. Collection and processes are now in place whereby billing for services is part of daily routine and activity. As of the date of this response, billing is current.

COLLECTION AND WRITE-OFF

Recommendation 7

We recommend that the campus strengthen controls over the collection and write-off of receivables.

Campus Response

We concur. Additional procedures for collection and write-off have been put in place. A review of all balances at May 31 will be evaluated, appropriate allowances created, and when collection

procedures have been exhausted, accounts will be written off either through direct write-off or Discharge of Accountability procedures as part of the year end closing at June 30, 2004.

PURCHASING

VENDOR MASTER FILE

Recommendation 8

We recommend that the campus review access to the vendor master file and take appropriate action to segregate duties and restrict vendor update responsibilities.

Campus Response

We concur. The campus is in process of reviewing the method by which access to the vendor file, that reflects the corresponding segregation of duties, can be implemented in the current financial system. The campus anticipates resolution before September 2004.

PROCUREMENT CARDS

Recommendation 9

We recommend that the campus:

- a. Establish procedures to prevent and detect splitting of purchases to avoid credit card limits.
- b. Strengthen controls to discourage inappropriate purchases and ensure the timely reconciliation of procurement card charges.
- c. Prohibit the use of signature stamps to certify procurement card statements.
- d. Establish procedures to promptly cancel procurement cards for employees separated from the campus.

Campus Response

We concur. Procedures to minimize artificial splitting of orders, prevent inappropriate purchases and ensure timely reconciliations will be implemented by September 2004. Prohibition of signature stamps is currently being communicated to appropriate personnel on campus. The procedures to cancel cards assigned to personnel in the process of separating employment have been incorporated into the campus' overall separation procedures.

REVOLVING FUND

REVOLVING FUND RECONCILIATIONS

Recommendation 10

We recommend that the campus complete revolving fund reconciliations on a monthly basis and ensure that all reconciling items are adequately identified, supported, and cleared in a timely manner.

Campus Response

The campus concurs. Documentation supporting being current in monthly reconciliations will be submitted not later than October 2004.

CHANGE AND PURCHASE FUNDS

Recommendation 11

We recommend that the campus:

- a. Submit a request to the Department of Finance for approval of all change funds in excess of \$500 and any subsequent increases.
- b. Strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.
- c. Investigate the whereabouts of the two missing change and purchase funds and take appropriate action.
- d. Issue appropriate receipts of custody for the contracts and grants' purchase fund and the campus service center change fund.

Campus Response

We concur. The campus is in process of gaining requisite approval of all change funds over \$500. Independent counts are being performed at the prescribed frequency. The issue with the two missing change funds has been resolved. The contracts and grants purchase fund and the campus service center change fund issues have been resolved. Documentation of the approvals will be provided not later than September 2004.

CASH DISBURSEMENTS

BANK RECONCILIATIONS

Recommendation 12

We recommend that the campus complete bank reconciliations on a monthly basis and ensure that all reconciling items are adequately identified, supported, and promptly resolved.

Campus Response

We concur. Documentation supporting being current in monthly reconciliations will be submitted not later than October 2004.

LONG OUTSTANDING CHECKS

Recommendation 13

We recommend that the campus promptly process long outstanding checks as required by SAM §8042 and establish procedures to ensure that future long outstanding checks are processed in a timely manner.

Campus Response

We concur. The campus is currently reviewing its stale-dated checks, and will properly deal with them according to our strengthened, written procedures. The campus will notify payees when checks become 180 days old and either cancel and re-issue, or send them to the State Controller when they become one year old.

VENDOR DATA RECORD

Recommendation 14

We recommend that the campus strengthen controls over maintenance of vendor data records (Form STD. 204) for all non-governmental vendors.

Campus Response

We concur. Procedures to strengthen controls for non-governmental vendors data records will be fully implemented not later than September 2004 in conjunction with recommendation #8, above.

DEPARTMENT OF GENERAL SERVICES CHARGES

Recommendation 15

We recommend that the campus strengthen controls over the verification and recording of charges from the DGS.

Campus Response

We concur. The campus has taken steps to ensure that DGS charges are verified and recorded properly and documentation will be provided within 60 days.

PAYROLL AND PERSONNEL**OVERTIME PAYMENTS****Recommendation 16**

We recommend that the campus strengthen procedures to ensure that overtime wages are paid in accordance with respective bargaining unit contracts.

Campus Response

We concur. The technicians and the Payroll Manager, prior to input into PIMS, now review all individual bargaining unit calculations to ensure accuracy before the payment issues.

EMPLOYEE SEPARATION**Recommendation 17**

We recommend that the campus review and strengthen employee separation procedures to ensure timely payment of wages and complete clearance documentation.

Campus Response

We concur. The payroll department is now completing exit interviews with all separating employees to ensure accurate and timely payments within the legal 72-hour time frame. To ensure timely completion of clearance documentation, all departments must respond to the clearance notification indicating whether the employee has outstanding obligations in their departments. If there are outstanding items, notification will be sent to the department manager to take action. Copies of these responses are being maintained electronically in the Human Resources database.

ADDITIONAL EMPLOYMENT**Recommendation 18**

We recommend that the campus document procedures for prior approval and monitoring of all additional employment, including record retention, and distribute the procedures to all employees involved in the process.

Campus Response

We concur. Academic Personnel will provide written documentation for procedures currently in place for the monitoring of additional employment for faculty by August 15, 2004. Training will

continue to be provided. Records will be kept for three (3) years. The Payroll Manager will provide additional training for the payroll technicians in usage of PIMS employment history. All PPTs will be reviewed and signed by the Payroll Manager prior to inputting the information into the PIMS database.

FIXED ASSETS

PROPERTY ACCOUNTING

Recommendation 19

We recommend that the campus strengthen controls to ensure compliance with *CASE Management Reporting Standards*, accurate property valuation, properly tagged property, and timely recording of property acquisitions.

Campus Response

We concur. Additional procedures will be implemented prior to September 2004 to assure compliance, accuracy of valuation, and proper tracking through tagging and recording.

PROPERTY SURVEY REPORTS

Recommendation 20

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

Campus Response

We concur. Additional property survey procedures will be developed, implemented and communicated to the campus prior to September 2004.

FISCAL INFORMATION TECHNOLOGY

Recommendation 21

We recommend that the campus implement a process for authorizing and monitoring the use of IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. CSUMB tracks the authorization by using an Oracle ID against the PeopleSoft database with an Oracle ID request form. The employee requesting the Oracle ID must obtain approval by his/her immediate supervisor/manager and the Associate Director of Information Systems and Network Services. CSUMB will monitor the usage of Oracle ID(s) as soon as the report is available

from Unisys in Salt Lake City, then we will match the report with the Oracle ID request form. All processes to enhance current ID access by September 2004.

INVESTMENTS

Recommendation 22

We recommend that the campus:

- a. Reconcile the investment balances within each trust project from inception and going forward into future fiscal years.
- b. Allocate investment income within the general ledger to the individual accounts that comprise the investment pool.
- c. Analyze, forecast, and document cash flow activity on a monthly basis.

Campus Response

We concur, conceptually. With the relatively small amount of excess money held in trust, the low current rate of return and the limited staff resources to perform such analysis, forecasting and cash management, the campus has chosen to remit excess cash to the State Controller's Office to be invested in SMIF and to not allocate the income. Effective with the new fiscal year, the campus will implement the same methodology of reconciling and accounting for investments as is currently in place in the Foundation. Documentation will be in provided not later than October 2004.

TRUST FUNDS

TRUST AGREEMENTS

Recommendation 23

We recommend that the campus strengthen controls necessary to maintain complete and up-to-date trust agreements for all trust projects.

Campus Response

We concur. The campus has taken a complete inventory of trust agreements, obtained current documents when necessary, and tightened controls to ensure proper documentation is in place prior to a trust fund being established.

TRUST BALANCES**Recommendation 24**

We recommend that the campus strengthen controls over trust fund administration to ensure that trust projects maintain positive cash and fund balances.

Campus Response

We concur. The campus had previously viewed only certain related trusts in a combined manner with a positive balance in one offsetting a negative balance in the related trust. All trusts will be viewed entirely separately in the future to assure that all, individually, have positive cash and fund balances. Any trusts that should be combined will be done so by effecting new trust agreements.

RECONCILIATIONS**Recommendation 25**

We recommend that the campus strengthen procedures to ensure that reconciliations are completed in a timely manner and reconciling items are adequately supported and promptly resolved.

Campus Response

We concur. Documentation supporting being current in reconciliations, including adequate supporting detail and resolution of outstanding items, will be submitted not later than October 2004.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 30, 2004

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

FULLERTON

TO: Mr. Larry Mandel
University Auditor

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-06 on *FISMA*,
California State University, Monterey Bay

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of June 30, 2004, I accept the response as submitted with the draft final report on *FISMA*, California State University, Monterey Bay.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/amd

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Peter P. Smith, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS