

FISMA

OFFICE OF THE CHANCELLOR

Report Number 03-08

February 12, 2004

Members, Committee on Audit

Shailesh J. Mehta, Chair
Roberta Achtenberg, Vice Chair
Debra S. Farar William Hauck
Frederick W. Pierce, IV

Staff

University Auditor: Larry Mandel
Senior Director: Janice Mirza
IS Audit Manager: Greg Dove
Internal Auditor: Maureen Pasag

BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary.....	1
Introduction.....	5
Purpose.....	5
Scope and Methodology.....	5

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

Cash Receipts.....	7
Accounts Receivable.....	8
Auxiliary Billings.....	8
Delinquent Accounts Receivable.....	8
Revolving Fund.....	9
Reconciliations.....	9
Infrequent Fund Counts.....	11
Cash Disbursements.....	11
Airline and Rental Car Receipts.....	11
Bank Reconciliations.....	12
State Controller’s Office Reconciliations.....	13
Fixed Assets.....	15
Trust Funds.....	17

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Management Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

CO	Chancellor's Office
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SCO	State Controller's Office

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.

This report represents our biennial review.

We visited the Office of the Chancellor from September 15, 2003, through October 24, 2003, and made a study and evaluation of the accounting and administrative control in effect as of October 24, 2003. This report represents our biennial review.

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

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

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

Our study and evaluation revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal controls over the following areas: accounts receivable, revolving fund, and cash disbursements. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, the Office of the Chancellor's accounting and administrative control in effect as of October 24, 2003, taken as a whole, was sufficient to meet the objectives stated above.

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

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 [7]

Checks received at the accounting department were not restrictively endorsed on the day of receipt, and those not made payable to the chancellor's office (CO) were not prelisted to localize accountability. Checks were endorsed during deposit preparation, which occurred only three days a week, while checks not made payable to the CO were immediately returned to the sender.

ACCOUNTS RECEIVABLE [8]

Auxiliary organizations were not invoiced in a timely manner. Ten of sixteen invoices reviewed were prepared between three to eight months after the charges were incurred. In addition, delinquent accounts receivable were not adequately pursued to ensure timely collection. A review of 20 delinquent accounts disclosed no evidence of collection efforts for seven accounts and less than the required number of collection letters for five accounts. Further, 25 percent of the accounts receivable balance as of June 30, 2003, was outstanding more than 180 days, which included billings dating back to 1995 through 1999.

REVOLVING FUND [9]

Revolving fund reconciliations were not prepared in a timely manner. Seven of the monthly revolving fund reconciliations for fiscal year 2002/03 had been prepared an average of 47 days late. In addition, independent cash counts of the governmental affairs petty cash did not occur with the required frequency, which is a repeat finding from the prior FISMA audit. Two quarterly cash counts were missing for calendar years 2002 and 2003.

CASH DISBURSEMENTS [11]

Airline and rental car charges billed to the CO were not compared with receipts attached to employee travel expense claims to determine the propriety of the charges. Bank reconciliations were not prepared in a timely manner, and bank statements and cancelled checks were not delivered unopened to the person who prepared the bank reconciliation. Eight monthly bank reconciliations for fiscal year 2002/03 had been prepared an average of 25 days late. In addition, reconciliations of agency accounts to the State Controller's Office (SCO) balances were not prepared in a timely manner and were missing preparation

EXECUTIVE SUMMARY

and review dates. Eight monthly SCO reconciliations for fiscal year 2002/03 had been prepared an average of 37 days late.

FIXED ASSETS [15]

Fixed asset acquisitions were not always entered into the property records on a timely basis. Seven of ten property acquisitions reviewed were recorded into the property listing from 4 to 12 months after receipt.

TRUST FUNDS [17]

Some trust projects had negative balances, while one of the trust agreements reviewed was not complete. A review of trust balances as of June 30, 2003, disclosed that eight trust projects had negative cash balances totaling \$202,094, and six projects had negative fund balances totaling \$195,764.

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 2002/03 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 October 2003. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties 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 MANAGEMENT RESPONSES

CASH RECEIPTS

Checks received at the accounting department were not restrictively endorsed on the day of receipt, and those not made payable to the chancellor's office (CO) were not prelisted to localize accountability.

We found that checks were endorsed during deposit preparation, which occurred only three days a week. In addition, checks not made payable to the CO were immediately returned to the sender.

State Administrative Manual (SAM) §8034.1 states that agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received. Timely endorsements serve to discourage the use of lost or stolen negotiable instruments by someone other than the state agency.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments, not payable to the state agency, will be prelisted by the person opening the mail to localize accountability of these assets.

The director of accounting stated that staff responsible for the endorsement did not fully understand the importance of the control and delayed the endorsement to increase efficiency. He further stated that staff responsible for the check log was not aware of the requirement for preparing a list of checks not payable to the CO.

Inadequate control over cash receipts increases the risk of loss from inappropriate acts.

Recommendation 1

We recommend that the CO endorse checks on the day of receipt and prepare a prelist of checks received not made payable to the CO.

Management Response

We concur. Staff responsible for the logging and endorsing the checks has received additional training to ensure the cash receipts procedures are followed.

ACCOUNTS RECEIVABLE

AUXILIARY BILLINGS

Auxiliary organizations were not timely invoiced for amounts due and payable.

A review of 16 invoices issued between September 2002 and June 2003 disclosed that ten were between three and eight months after the charges were incurred.

SAM §8776.2 states that an invoice or other type of claim document will be prepared and sent out as soon as possible after the recognition of a claim.

The director of accounting stated that the auxiliaries were not invoiced in a timely manner due to a lack of communication with the accounts receivable technician who was new to the position.

Untimely billings to auxiliary organizations reduce the amount of working capital and the likelihood of collecting funds.

Recommendation 2

We recommend that the CO strengthen procedures to ensure that auxiliary organizations are invoiced timely.

Management Response

We concur. Billing procedures were reviewed with the staff to ensure timely billing. Additionally, a checklist is now being completed on a monthly basis by the general accounting manager. The checklist documents completion of critical accounting activities including monthly billing of auxiliary organizations.

DELINQUENT ACCOUNTS RECEIVABLE

Delinquent accounts receivable were not adequately pursued to ensure timely collection.

Our review of 20 delinquent accounts disclosed no evidence of collection efforts for seven totaling \$1,230,473 at June 30, 2003. In addition, a third collection letter was not sent for five accounts. We also noted that \$10,604,412 (25%) of the accounts receivable balance as of June 30, 2003, was outstanding more than 180 days. This included seven billings to the CSU Foundation from 1999, two billings to Oracle from 1998, and a conference fee owed by a campus from 1995.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables and states that a sequence of three collection letters is to be sent. Further, if

all reasonable collection procedures are unsuccessful, an analysis should be prepared to determine what additional collection efforts should be made.

The director of accounting acknowledged that collection efforts needed improvement and stated that the accounts receivable technician did not understand the importance of properly documenting follow-up on delinquent invoices.

Failure to properly manage receivables negatively impacts cash flow and reduces the likelihood that all monies owed will be collected.

Recommendation 3

We recommend that the CO strengthen controls over the collection of receivables to ensure full compliance with SAM §8776.6.

Management Response

We concur. Collection procedures are being reviewed and clarified. Upon completion of the review, staff will be retrained to ensure compliance with SAM requirements. Additionally, a checklist is now being completed on a monthly basis by the general accounting manager. The checklist documents completion of critical accounting activities including mailing of past-due letters. Final corrective activities will be completed by May 15, 2004.

REVOLVING FUND

RECONCILIATIONS

Revolving fund reconciliations were not prepared in a timely manner.

We reviewed monthly revolving fund reconciliations for fiscal year 2002/03 and found that seven had been prepared an average of 47 days late.

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

The director of accounting stated that substantial turnover in accounts payable delayed the preparation of the reconciliations.

Failure to complete revolving fund reconciliations in a timely manner increases the risk that errors and irregularities will not be detected.

Recommendation 4

We recommend that the CO strengthen procedures to ensure that revolving fund reconciliations are prepared in a timely manner.

Management Response

We concur. Additional emphasis has been placed on completing the reconciliation on a timely basis. A checklist is now being completed on a monthly basis by the accounts payable manager. The checklist documents completion of critical accounts payable activities including completion of the revolving fund reconciliations.

INFREQUENT FUND COUNTS

Independent cash counts of the governmental affairs petty cash did not occur with the required frequency. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Our review of independent cash counts for calendar years 2002 and 2003 disclosed that two quarterly counts were missed for 2002.

SAM §8111.2 states that an employee other than the custodian of the change or petty cash fund will count each fund within a prescribed schedule (quarterly - for cash funds \$200.01 to \$500.00) and report the count to the accounting officer.

The director of accounting stated that the petty cash custodian did not understand the importance of having these counts completed on a timely basis.

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

Recommendation 5

We recommend that the CO implement procedures to ensure that the governmental affairs petty cash fund is counted at the prescribed frequency interval.

Management Response

We concur. We have established a procedure to contact them as reports come due to remind them of the requirement. Continued instances of non-compliance will result in withholding replenishment of the petty cash fund or closing the fund altogether.

CASH DISBURSEMENTS

AIRLINE AND RENTAL CAR RECEIPTS

Airline and rental car charges billed to the CO were not compared with receipts attached to employee travel expense claims to determine the propriety of the charges.

SAM §8422.114 states that the passenger's copy of an airline ticket will be submitted with the employee's travel expense claim. Such passenger's copy will be compared with the airline invoice to determine the propriety of the charge. Any unapproved charges will be collected from the employee.

SAM §8422.115 states that the customer's copy of the automobile rental contract will be submitted with the employee's travel expense claim. Such copy will be compared with the automobile rental invoice to determine the propriety of the charge. Any unapproved charges will be collected from the employee.

SAM §8711.3 states that it is the responsibility of the agency accounting office to verify invoices from transportation companies to determine that the transportation service was furnished and the rate charged is correct. Verification that the service was furnished can be determined by comparing the transportation invoice with the passenger coupons received by the traveler and attached to his/her travel expense claim.

The director of accounting stated that the accounts payable department was unaware of the requirement.

Lack of control over verification of expenses to original receipts increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 6

We recommend that the CO compare airline and rental car invoices to receipts submitted with employee travel claims to determine the propriety of the charges.

Management Response

We concur. We will establish a procedure for performing the recommended procedure on a sample basis. The procedure will be in place by April 15, 2004.

BANK RECONCILIATIONS

Bank reconciliations were not prepared in a timely manner, and bank statements and cancelled checks were not delivered unopened to the person who prepared the bank reconciliation.

We reviewed monthly bank reconciliations for fiscal year 2002/03 and found that eight reconciliations had been prepared an average of 25 days late. In addition, bank statements and cancelled checks were delivered opened to the person who prepared the bank reconciliation.

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

SAM §8080 states that the paid checks will be delivered unopened to the person charged with the bank reconciliation function and will be safeguarded by him/her until the reconciliation is completed. The director of accounting stated that the bank reconciliations were not prepared in a timely manner due to staffing issues. He further stated that the staff was unaware of the requirement to deliver bank statements to the accountant unopened.

Failure to complete bank reconciliations in a timely manner and adequately safeguard bank statements and cancelled checks increases the risk that errors and irregularities will not be detected.

Recommendation 7

We recommend that the CO strengthen controls to ensure that bank reconciliations are prepared in a timely manner and deliver bank statements and cancelled checks unopened to the person charged with the bank reconciliation function.

Management Response

We concur. The general accounting manager now prepares a monthly report documenting the performance of the reconciliation. Staff has received additional training to ensure bank statements are properly handled.

STATE CONTROLLER'S OFFICE RECONCILIATIONS

Reconciliations of agency accounts to the State Controller's Office (SCO) balances were not prepared in a timely manner and were missing preparation and review dates.

A review of monthly SCO reconciliations for fiscal year 2002/03 disclosed that eight reconciliations had been prepared an average of 37 days late. Since preparation and review dates were not notated on the reconciliations by the preparer and reviewer, file "print" dates were used to determine the timeliness of the reconciliations.

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

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

The director of accounting stated that the SCO reconciliations were delayed because the accountant who prepared the reconciliations was trying to clear the reconciling items concurrently with preparing the reconciliations, rather than completing the reconciliations first. He further stated that the reconciliation form was redesigned and a place for the date was inadvertently left off causing the dates to be omitted.

Failure to complete SCO reconciliations in a timely and accurate manner increases the risk that errors and irregularities will not be detected.

Recommendation 8

We recommend that the CO strengthen controls to ensure that SCO reconciliations are prepared in a timely manner and include preparation and review dates next to the preparer's and reviewer's names.

Management Response

We concur. The importance of timely reconciliations has been emphasized with the staff. A checklist is now being completed on a monthly basis by the general accounting manager. The checklist documents completion of critical accounting activities including preparation of monthly SCO reconciliations. Additionally, the reconciliation form has been revised to include fields for the appropriate dates.

FIXED ASSETS

Fixed asset acquisitions were not always entered into the property records on a timely basis.

Our review disclosed that seven of ten property acquisitions were recorded into the property listing from 4 to 12 months after receipt.

SAM §8650 requires departments to record specified property information when property is acquired. In addition, departments will keep track of state property, whether capitalized or not, in an automated property accounting system.

The budget officer stated that recording these assets was delayed due to the conversion to PeopleSoft in October 2002. She further stated that the fixed assets were converted to a new property ledger system in November 2002.

Delays in recording of fixed asset acquisitions increase the risk of theft and loss and understate inventory and accounting records.

Recommendation 9

We recommend that the CO strengthen procedures to ensure that all fixed asset acquisitions are entered into the property records on a timely basis.

Management Response

We concur. We are currently undergoing a review of the methodology used to record fixed assets and are performing a reconciliation to ensure all fixed assets are properly recorded. Upon completion of this review, procedures will be developed to ensure fixed assets are recorded on a monthly basis by May 15, 2004.

TRUST FUNDS

Some trust projects had negative balances, while one of the trust agreements reviewed was not complete.

Our review of trust balances as of June 30, 2003, disclosed that eight had negative cash balances totaling \$202,094 ranging from \$184 to \$120,622, and six had negative fund balances totaling \$195,764. In addition, one of ten trust agreements reviewed did not state the purpose of the trust fund and the type of expenditures to be disbursed from the fund.

State University Administrative Manual §3710.01 states that each trust project maintains a positive cash and fund balance.

SAM §19440.1 states each trust account established shall be supported by documentation as to the type of trust, donor or source of trust moneys, 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 moneys for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

The manager of enterprise operations stated that the negative trust balances were attributed to timing and coding errors on underlying transactions. She further stated that the trust agreement missing the purpose and written description of expenditures was an oversight when the document was prepared.

Inadequate controls and documentation over trust projects increase the risk of monetary loss and non-compliance with state and local rules and regulations.

Recommendation 10

We recommend that the CO strengthen procedures over trust fund administration to ensure that trust projects maintain positive fund balances and complete trust agreements are prepared and maintained for all trust accounts.

Management Response

We concur. Controls over trust fund administration are being reviewed and will be strengthened to ensure fulfillment of our fiduciary responsibilities. These strengthened controls will be in place by May 15, 2004.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Richard P. West	Executive Vice Chancellor and Chief Financial Officer
Myeshia Armstrong	General Accounting Manager
George Ashkar	Director, Systemwide Financial Operations
Amy Ashton	Financial Information Systems Administrator
Ron Basich	Director, Corporate Information Management
Sam Bawahab	Accountant
Linda Brown	Associate Director, Finance of International Programs
June Cacho	Accounting Technician
Addison Ching	Director, Information Dissemination and Access
Joyce Cury	Student Funds Coordinator, International Programs
Pat Dayneko	Director, Contracts Services and Procurement
Bruce Gibson	Senior Director, Human Resources Services
Jean Gill	Manager, Enterprise Operations
Ellyce Gordon	Property Clerk
Lillian Guo	Analyst/Programmer, Governance and Operational Systems Team
Terry Hamilton	Accounts Payable Manager
Kay Harris	Accounts Payable Technician III
Dennis Hordyk	Assistant Vice Chancellor, Financial Services
Susan Kirby	Senior Payroll Technician
Cheryl Kwiatkowski	Senior Director, Information Technology Services
Thoa Le	Budget Officer
Richard Leffingwell	Senior Director, Financing and Treasury
Dawn Locher	Contract Coordinator
Linda Masterton	Assistant Director, Purchasing Operations
Tony McFarlane	Trust Fund Accountant
William Musselman	Director of Accounting
Art Phillips	Director, Information Technology Services
Terri Porter	Administrative Assistant
Audra Reed	Administrative Assistant
Angelene Renaud	Accountant
Pat Ritchie	Payroll Manager/Data Specialist
Lenore Rozner	Assistant Vice Chancellor, Business Planning and Information Management
Gwen Smith	Office Manager, Financial Services
Paul Stromgen	Director of Administration
Lisa Tran	Accounting Technician
Peggy Yates	Revenue Accountant
Cynthia Ziegler	Accounts Payable Technician III

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.



THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • FRESNO • FULLERTON • HAYWARD • HUMBOLDT
 LONG BEACH • LOS ANGELES • MARITIME ACADEMY • MONTEREY BAY • NORTHRIDGE • POMONA • SACRAMENTO
 SAN BERNARDINO • SAN DIEGO • SAN FRANCISCO • SAN JOSE • SAN LUIS OBISPO • SAN MARCOS • SONOMA • STANISLAUS

RICHARD P. WEST
EXECUTIVE VICE CHANCELLOR
CHIEF FINANCIAL OFFICER

MEMORANDUM

To: Larry Mandel
 University Auditor

Date: March 12, 2004

From: Richard P. West
 Executive Vice Chancellor and
 Chief Financial Officer

Subject: FISMA Audit 03-08 Responses

Attached is the Chancellor's Office response to the Chancellor's Office FISMA audit recommendations. Our response is based on a review of the controls identified by your staff as needing improvements. We believe our corrective action plan will be sufficient to restore or upgrade critical controls.

We would like to thank your staff for the professionalism displayed during the course of the audit.

RPW:wm

Attachment

cc: Dennis Hordyk

RECEIVED
 UNIVERSITY AUDITOR

MAR 12 2004

THE CALIFORNIA STATE
 UNIVERSITY

OFFICE OF THE CHANCELLOR

FISMA
AUDIT REPORT NO. 03-08

CASH RECEIPTS

Recommendation 1

We recommend that the CO endorse checks on the day of receipt and prepare a prelist of checks received not made payable to the CO.

Management Response

We concur. Staff responsible for the logging and endorsing the checks have received additional training to ensure the cash receipts procedures are followed.

ACCOUNTS RECEIVABLE

AUXILIARY BILLINGS

Recommendation 2

We recommend that the CO strengthen procedures to ensure that auxiliary organizations are invoiced timely.

Management Response

We concur. Billing procedures were reviewed with the staff to ensure timely billing. Additionally, a checklist is now being completed on a monthly basis by the general accounting manager. The checklist documents completion of critical accounting activities including monthly billing of auxiliary organizations.

DELINQUENT ACCOUNTS RECEIVABLE

Recommendation 3

We recommend that the CO strengthen controls over the collection of receivables to ensure full compliance with SAM §8776.6.

Management Response

We concur. Collection procedures are being reviewed and clarified. Upon completion of the review, staff will be retrained to ensure compliance with SAM requirements. Additionally, a checklist is now being completed on a monthly basis by the general accounting manager. The checklist documents

completion of critical accounting activities including mailing of past due letters. Final corrective activities will be completed by May 15, 2004.

REVOLVING FUND

RECONCILIATIONS

Recommendation 4

We recommend that the CO strengthen procedures to ensure that revolving fund reconciliations are prepared in a timely manner.

Management Response

We concur. Additional emphasis has been placed on completing the reconciliation on a timely basis. A checklist is now being completed on a monthly basis by the accounts payable manager. The checklist documents completion of critical accounts payable activities including completion of the revolving fund reconciliations.

INFREQUENT FUND COUNTS

Recommendation 5

We recommend that the CO implement procedures to ensure that the governmental affairs petty cash fund is counted at the prescribed frequency interval.

Management Response

We concur. We have established a procedure to contact them as reports come due to remind them of the requirement. Continued instances of non-compliance will result in withholding replenishment of the petty cash fund or closing the fund altogether.

CASH DISBURSEMENTS

AIRLINE AND RENTAL CAR RECEIPTS

Recommendation 6

We recommend that the CO compare airline and rental car invoices to receipts submitted with employee travel claims to determine the propriety of the charges.

Management Response

We concur. We will establish a procedure for performing the recommended procedure on a sample basis. The procedure will be in place by April 15, 2004.

BANK RECONCILIATIONS

Recommendation 7

We recommend that the CO strengthen controls to ensure that bank reconciliations are prepared in a timely manner and deliver bank statements and cancelled checks unopened to the person charged with the bank reconciliation function.

Management Response

We concur. The general accounting manager now prepares a monthly report documenting the performance of the reconciliation. Staff have received additional training to ensure bank statements are properly handled.

STATE CONTROLLER'S OFFICE RECONCILIATIONS

Recommendation 8

We recommend that the CO strengthen controls to ensure that SCO reconciliations are prepared in a timely manner and include preparation and review dates next to the preparer's and reviewer's names.

Management Response

We concur. The importance of timely reconciliations has been emphasized with the staff. A checklist is now being completed on a monthly basis by the general accounting manager. The checklist documents completion of critical accounting activities including preparation of monthly SCO reconciliations. Additionally, the reconciliation form has been revised to include fields for the appropriate dates.

FIXED ASSETS

Recommendation 9

We recommend that the CO strengthen procedures to ensure that all fixed asset acquisitions are entered into the property records on a timely basis.

Management Response

We concur. We are currently undergoing a review of the methodology used to record fixed assets and are performing a reconciliation to ensure all fixed assets are properly recorded. Upon completion of this review, procedures will be developed to ensure fixed assets are recorded on a monthly basis by May 15, 2004.

TRUST FUNDS

Recommendation 10

We recommend that the CO strengthen procedures over trust fund administration to ensure that trust projects maintain positive fund balances and complete trust agreements are prepared and maintained for all trust accounts.

Management Response

We concur. Controls over trust fund administration are being reviewed and will be strengthened to ensure fulfillment of our fiduciary responsibilities. These strengthened controls will be in place by May 15, 2004.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

April 6, 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 03-08 on *FISMA*,
Office of the Chancellor

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of April 6, 2004, I accept the response as submitted with the draft final report on *FISMA*, Office of the Chancellor.

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS