

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN MARCOS**

**Report Number 04-06
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**BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY**

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ABBREVIATIONS

CMS	Common Management System
CSU	California State University
CSUSM	California State University, San Marcos
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
PIA	Prison Industry Authority
SAM	State Administrative Manual
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. 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 biennial 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.

California State University, San Marcos (CSUSM) 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 (SAM), Education Code, Title 5, and Trustee policy.

We visited the CSUSM campus from April 19, 2004, through July 6, 2004, and made a study and evaluation of the accounting and administrative control in effect as of July 6, 2004. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, purchasing, revolving fund, payroll and personnel, fixed assets, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, CSUSM's accounting and administrative control in effect as of July 6, 2004, 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 [6]

A newly established fee was not properly processed and approved. Although the fee received consideration by the student fee advisory committee and approval of the president, the campus was unable to provide evidence that the fee had been presented to, and authorized by, the chancellor. In addition, application fee reconciliations were not prepared in a timely manner. Application fee reconciliations for the academic years ending June 2002 and May 2003 were not completed until April 2004. Further, 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 for the CSU Higher Education Fees and Income and CSU Dormitory Revenue-Housing funds.

ACCOUNTS RECEIVABLE [8]

Billings for services rendered were not always timely invoiced, which is a repeat finding from our prior FISMA audit. A review of 15 invoices issued from October 2003 through March 2004 disclosed that six were prepared between 4 to 11 months after the services were provided.

PURCHASING [9]

Procurement card controls did not ensure an adequate review of procurement card purchases and statements, appropriate supporting documentation, and adherence to transaction limits. This is a repeat finding from the prior FISMA audit. For example, procurement card documentation was not reviewed and reconciled in a timely manner, a lost itemized receipt form was completed five months following the purchase, approving officials did not always sign and date the procurement card statements, a purchase was made for an award clock without a description of the corresponding campus activity on the receipt, multiple or single purchases were made from vendors that exceeded the single and monthly purchase limits, a furniture purchase was made from a commercial vendor without a waiver obtained from the Prison Industry Authority, and documentation was not always retained for authorization of purchase limit increases.

REVOLVING FUND [11]

Controls over travel expense claims did not ensure adequate documentation and timely submission. A review of 15 travel expense claims disclosed that claims were not always submitted within 60 days after the trip. Instances were also noted where documents accepted for payment included an e-mail message, online confirmation orders, facsimiles, and photocopies, which were not certified that records were checked to prevent duplicate payment; the basis for conversion of foreign expenses into U.S. dollars

through an independent source was not substantiated; airline expenses were reimbursed without boarding passes; and conference expenses were reimbursed without proof of attendance.

CASH DISBURSEMENTS [12]

Long-outstanding checks were not processed in a timely manner. A review of the bank reconciliation dated March 31, 2004, disclosed 90 checks older than one year totaling \$47,177, with the oldest check dated September 1998.

PAYROLL AND PERSONNEL [13]

Employee separation procedures did not ensure timely payment of wages due. A review of ten employee separations disclosed that, in two instances, the final salary payment or salary advance was not completed within 72 hours after the effective separation. In addition, procedures to monitor additional employment were not documented.

FIXED ASSETS [15]

Property transactions were neither recorded into, nor reconciled to, accounting records in a timely manner. A review of property accounting records disclosed that it took an average of 194 and 179 days to record 15 acquisition and seven disposition transactions, respectively, and quarterly property reconciliations had not been completed for November 2002 through November 2003.

TRUST FUNDS [16]

Documentation to support trust projects was incomplete, and sufficient accounting detail was not maintained. This is a repeat finding from our prior FISMA audit. A review of trust projects disclosed instances where trust agreements did not show reporting requirements and/or documented approval by the budget office and accounting services department. In addition, a separate group of general ledger accounts was not maintained for distinct trust projects. Therefore, we were unable to establish campus compliance with the requirement for positive cash and fund balances. Further, investment earnings were not allocated to health center trust accounts.

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.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual (SUAM) 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 June 2004. 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 accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ 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 July 6, 2004. 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

FEE AUTHORIZATION

A newly established fee was not properly processed and approved.

We found that the Academic Technology Services Equipment Fee received consideration by the student fee advisory committee and approval of the president in December 2003 and February 2004, respectively. However, the campus was unable to provide evidence that the fee had been presented to, and authorized by, the chancellor.

Executive Order (EO) 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.

The vice president for student affairs stated that the Academic Technology Services Equipment Fee was not proposed to the chancellor due to oversight.

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

Recommendation 1

We recommend that the campus take appropriate action to obtain approval from the chancellor for the Academic Technology Services Equipment Fee and strengthen controls to ensure that fee actions are properly processed and approved in the future.

Campus Response

We concur. On August 20, 2004, the chancellor issued EO 916 authorizing the campus to establish the Academic Technology Services Equipment Fee. The campus, through the Student Fee Advisory Committee chairperson, will ensure the process outlined in EO 740 to establish, adjust, or abolish campus fees is followed prior to implementation.

FEE RECONCILIATIONS

Application fee reconciliations were not prepared in a timely manner.

We noted that application fee reconciliations for academic years ending June 2002 and May 2003 had not been completed until April 2004.

State University Administrative Manual (SUAM) §3825.01 requires that a reconciliation of applications for admission to fees received be prepared one month after the end of each academic year term.

The university controller stated that delayed completion of the fee reconciliations was attributed to staffing shortages.

Failure to reconcile fees in a timely manner increases the risk that errors and irregularities will not be detected.

Recommendation 2

We recommend that the campus reconcile application fees received within one month after the end of each academic term being reconciled.

Campus Response

We concur. Procedures have been put into place to request data and complete the reconciliations within the month following the end of each academic year term. The due dates have been recorded in the task list of the university controller and the responsible accountant.

REMITTANCES TO THE STATE TREASURER

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

Accumulated deposits of \$25,000 were not remitted by the first day of the week following the accumulation. During our review of remittances to the State Treasury, we noted the following frequencies and amounts remitted for the California State University (CSU) Higher Education Fees and Income (#498) and CSU Dormitory Revenue-Housing (#580) funds:

Month	Number of Deposits	Total Remittances Fund 498	Number of Deposits	Total Remittances Fund 580
July 2003	---	---	---	---
August 2003	2	\$5,220,000	2	\$495,000
September 2003	1	925,000	1	60,000
October 2003	2	724,407	1	40,000
November 2003	2	706,055	---	---
December 2003	1	880,000	1	25,000
January 2004	1	4,125,000	1	195,000
February 2004	2	2,214,000	2	109,000
March 2004	---	---	---	---
April 2004	1	210,000	---	---
May 2004	1	65,000	---	---

State Administrative Manual (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 university controller stated that the delayed frequency for remittance of monies to the State Treasury was attributed to staffing shortages.

Not remitting monies to the State Treasury at prescribed frequencies results in lost interest income to the state.

Recommendation 3

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

Campus Response

We concur. A cash report is run each Monday, the remittance completed, and the journal to record the remittance is submitted to the university controller. If no remittance is required, the cash report is forwarded to the university controller for verification.

ACCOUNTS RECEIVABLE

Billings for services rendered were not always timely invoiced. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

A review of 15 invoices issued from October 2003 through March 2004 disclosed that six were prepared between 4 to 11 months after the services were provided.

SAM §8776.2 requires invoices to be prepared as soon as possible after recognition of a claim.

The director of student financial services stated that the delayed billings were due to the untimely submission of data from service departments.

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

Recommendation 4

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

Campus Response

We concur. The university will add verbiage to its current procedures by December 1, 2004, that requires service departments to submit invoice requests to student financial services within 45 days from the date of receipt of goods or services. This will be communicated to all end users via quarterly business managers meetings. Invoice requests that are submitted outside of this time frame will be referred to the director of student financial services who will take the appropriate action, in coordination with the department manager, to ensure compliance.

PURCHASING

The campus did not provide an adequate review of procurement card purchases and statements, appropriate supporting documentation, and adherence to transaction limits. This is a repeat finding from the prior FISMA audit.

A review of 25 procurement card statements between November 2003 and January 2004 disclosed the following:

- ▶ In 15 instances, the approving official did not date the procurement card statement. In two of the same instances, the approving official did not sign the procurement card statement.
- ▶ In three instances, a purchase from a vendor exceeded the single purchase limit.
- ▶ In three instances, total purchases exceeded the monthly purchase limit.
- ▶ In one instance, two purchases from a vendor were recorded on the same date that exceeded the single purchase limit.
- ▶ In two instances, a furniture purchase was made from a commercial vendor without a waiver obtained from the Prison Industry Authority (PIA). In two other instances, a purchase was made for an award clock without a description of a campus activity on the receipt and a lost/itemized receipt form was not completed until five months following the purchase.

In addition, we noted that documentation to support authorization of single and monthly purchase limit increases on behalf of four cardholders was not maintained on file. As a result, we were unable to review compliance with authorized purchase limit increase requirements.

The California State University, San Marcos (CSUSM) *ProCard Manual*, dated March 2003, states that:

- ▶ The cardholder is required to review the procurement card statement for accuracy and reconcile the statement with all vendor receipts and invoices by the tenth of the next month (under *Monthly Statement Reconciliation*, page 4).

- ▶ The cardholder is required to attach a lost/itemized receipt form with an explanation of the lost receipt to the monthly procurement card purchase report, if receipts and invoices are lost and a duplicate copy cannot be obtained from the vendor (under *Receipts and Invoices*, page 4).
- ▶ The approving official is required to sign and date the procurement card statement next to the cardholder signature (under *Approving Official Responsibilities*, page 8).
- ▶ Prohibited uses of the procurement card include personal purchases and splitting of purchases to circumvent the dollar limitation (under *Prohibited Use of ProCard*, page 9).

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

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

The director of procurement and support services stated that the procurement card issues identified were attributed to oversight.

Insufficient procurement card controls increase the risk of loss from inappropriate acts.

Recommendation 5

We recommend that the campus:

- a. Retain documentation to support authorization of single and monthly purchase limit increases.
- b. Establish procedures to prevent and detect splitting of purchases to avoid credit card limits and discourage inappropriate purchases.
- c. Strengthen supervision of monthly reconciliations of credit card charges to supporting documents, as well as general timeliness of the reconciliations.

Campus Response

We concur with the audit recommendations and will:

- a. Retain documentation to support authorization of single and monthly purchase limit increases. Documentation should be maintained by the appropriate individual administrator starting December 1, 2004. This aspect will be enhanced by a corresponding log maintained by the ProCard administrator. The log is to have an entry for each authorization of single and/or monthly purchase limit increases.
- b. Establish procedures by December 1, 2004, to prevent and detect splitting of purchases to avoid credit card limits and discourage inappropriate purchases. Quarterly training will begin by

December 2004 to remind and instruct cardholders of appropriate uses for their ProCard and to discourage and avoid inappropriate transactions, such as the splitting of purchases.

- c. Strengthen supervision of monthly reconciliations of credit card charges to supporting documents, as well as general timeliness of the reconciliations. Monthly notification to all cardholders has been initiated as of September 2004 as a reminder to keep reconciliations current.

By the end of November 2004: The ProCard manual will reflect all of the requirements, bringing all issues current. Monthly reminders will be sent to the ProCard administrators and cardholders, reminding them of their responsibilities pertaining to ProCard issues. Quarterly training will cover "do's and don'ts" and the reconciliation process.

In addition to a, b, and c, we plan to audit the documentation of the ProCard population, which consists of 100 cards as follows:

- Phase I – Catch-up phase to audit 03/04: Accounts payable contacted all cardholders on October 25, 2004. The goal is to complete this phase by April 2005.
- Phase II – Ongoing audits: Going forward, all cards will be audited according to established policy of once every two years (an average of four per month), with new cardholders being audited every three months. This phase will commence when Phase I is complete.

REVOLVING FUND

Travel expense claim administration did not ensure adequate documentation and timely submission.

Our review of 15 travel expense claims reimbursed between July 2003 and June 2004 disclosed that:

- ▶ In two instances, travel expense claims were not submitted within 60 days after the trip.
- ▶ In seven instances, documents accepted for payment included an e-mail message, online confirmation orders, facsimiles, and photocopies. These documents were not certified that records were checked to prevent duplicate payment.
- ▶ In three instances, travel expense claims did not substantiate the basis for conversion of foreign expenses into U.S. dollars through an independent source.
- ▶ In four instances, airline expenses were reimbursed without boarding passes to show that the flights were actually taken.
- ▶ In three instances, conference expenses were reimbursed without proof of attendance.

CSU directive Human Resources (HR) 2001-02, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated January 17, 2001, indicates that a travel expense claim is required to be submitted to substantiate travel expenses within 60 days after the trip. It further

indicates that receipts or vouchers are required for every item of expense. In cases where receipts cannot be obtained or have been lost, a statement to that effect is required to be made in the expense account and the reason given. In absence of satisfactory explanation, the amount involved will not be allowed.

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

The director of procurement and support services stated that the delayed travel expense claims and quality of supporting documentation was attributed to oversight.

Insufficient control over travel expenses increases the risk that revolving fund monies may be expended for inappropriate purposes.

Recommendation 6

We recommend that the campus ensure that travel expenses and travel expense claims are supported by appropriate documentation.

Campus Response

We concur with the recommendation. At the time of the FISMA audit, the travel desk was instructed to conduct post-audit of travel expense claims. As such, anomalies could only be discovered after the fact. As of August 1, 2004, the travel desk is conducting pre-audits of all travel claims to ensure that all necessary documentation is submitted and properly filed with each claim.

In addition, as of December 2004, travel training sessions will be increased from twice a year to quarterly to instruct and remind appropriate campus personnel of the travel documentation requirements.

CASH DISBURSEMENTS

Long-outstanding checks were not processed in a timely manner.

We reviewed the bank reconciliation dated March 31, 2004, and noted 90 checks older than one year totaling \$47,177, with the oldest check dated September 1998.

SAM §8042 states that checks have a one-year period of negotiability, unless specific provisions of law require cancellation in a different period of time. Further, agencies will send a Stop Payment Request form 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 university controller stated that the delayed processing and cancellation of outstanding checks were attributed to staffing shortages.

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

Recommendation 7

We recommend that the campus promptly process the noted long-outstanding checks and establish procedures to ensure that future long-outstanding checks are processed in a timely manner.

Campus Response

We concur. All long-standing checks were escheated during July 2004. A policy is in place to meet these requirements; however a staffing shortage delayed the processing.

PAYROLL AND PERSONNEL

EMPLOYEE SEPARATION

Employee separation procedures did not ensure timely payment of wages due.

Our review of ten employee separations between October 2002 and March 2004 disclosed that, in two instances, the final salary payment or salary advance was not completed within 72 hours after the effective separation.

CSU Coded Memorandum HR 2003-15, Attachment B, states that Labor Code Sections §201 and §202 require the CSU to pay separating employees in a specified time frame. Payment of owed wages to discharged and resigned employees is treated differently in the Labor Code. An employee who is discharged must immediately be paid wages earned. An employee who resigns from employment must be paid wages earned no later than 72 hours from the date of separation. However, if the employee provides the employer at least 72 hours notice of his/her impending separation, he/she is entitled to wages owed at the time of separation.

The deputy controller for payroll services stated that delayed payment of wages was due to late requests.

Insufficient control over employee separations increases the risk of late wage payments.

Recommendation 8

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

Campus Response

We concur. Our goal has been to educate the campus on the importance of reporting employee separations to payroll in a timely manner. On July 21, 2004, the deputy controller of payroll distributed a memo to all campus deans, directors, department managers and supervisors entitled "Payment of Wages for Employee Separation." The memo reminded the campus of the Labor Code requirement to pay separating employees immediately (or within 72 hours in certain circumstances), and gave instructions on how to report these events to payroll in a timely manner. This issue has also been addressed in the Business Manager's Roundtable held September 17, 2004, and in various training workshops conducted by payroll on timesheets and attendance reporting.

ADDITIONAL EMPLOYMENT

Procedures to monitor additional employment were not documented.

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 the 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 25 percent overage. Overage is calculated as a percentage of full-time workload or, when appropriate, full-time time-base.

CSU directive HR 2002-05, *Additional Employment Policy*, dated February 19, 2002, indicates that each campus is responsible for determining the extent of an employee's CSU workload prior to appointment to any position. It further indicates that campuses are responsible for developing appropriate guidelines for implementation of the systemwide additional employment policy and for developing procedures for prior approval and monitoring of all additional employment.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, requires each campus to develop a process for monitoring employment and comply with the limits established by the CSU additional employment policy.

The associate director and benefits manager of human resources and equal opportunity stated that the campus was in the process of documenting procedures to monitor additional employment.

The absence of documented and effectively communicated operational procedures for monitoring additional employment increases the risk of excessive employment overage and non-compliance with the collective bargaining agreement.

Recommendation 9

We recommend that the campus document procedures for monitoring all additional employment and distribute the procedures to all employees responsible for the process.

Campus Response

We concur. We are in the process of writing campus guidelines and procedures for monitoring all additional employment, and we will distribute the procedures to employees responsible for monitoring additional employment of employees, to be completed by March 30, 2005. We are using CSU HR 2002-05, *Additional Employment Policy*, dated February 19, 2002, as a resource to develop the written guidelines and procedures.

FIXED ASSETS

Property transactions were neither recorded into, nor reconciled to, accounting records in a timely manner.

Our review of property accounting records between July 2002 and May 2004 disclosed that:

- ▶ It took an average of 194 and 179 days to record 15 acquisition and seven disposition transactions, respectively.
- ▶ Property reconciliations were not always performed on a quarterly basis. We noted that reconciliations had not been completed from November 2002 through November 2003.

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

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.

The university controller stated that the delayed general ledger entries and property reconciliations were attributed to staffing shortages.

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

Recommendation 10

We recommend that the campus strengthen controls to ensure the timely recording and reconciliation of property transactions.

Campus Response

We concur. The campus is currently recording and reconciling property transactions on a monthly basis.

TRUST FUNDS

TRUST FUND ADMINISTRATION

Documentation to support trust projects was incomplete, and sufficient accounting detail was not maintained. This is a repeat finding from the prior FISMA audit.

Our review of all trust accounts disclosed that:

- ▶ In 43 instances, trust agreements did not show reporting requirements.
- ▶ In 56 instances, trust agreements did not show documented approval by the budget office.
- ▶ In 52 instances, trust agreements did not show documented approval by the accounting services department.
- ▶ A separate group of general ledger accounts was not maintained for distinct trust projects. Therefore, we were unable to establish campus compliance with a requirement for positive cash and fund balances.

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.

CSUSM *Trust Fund Policy*, dated March 18, 2002, states that a trust fund project is established through a completed trust fund project agreement with all appropriate requesting and approving signatures.

SUAM §3710.01 states that a trust project is an activity or group of related activities, which in the absence of external restrictions, may be combined for accounting purposes. Each unique trust project must be accounted separately, which will provide for balance sheet and income statement reporting and other reports as required.

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

The university controller stated that the incomplete trust documentation was attributed to oversight. She further stated that staffing shortages did not enable the campus to maintain separate accounting detail for trust projects.

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

Recommendation 11

We recommend that the campus maintain:

- a. Complete trust fund documentation on file.
- b. Sufficient accounting detail to provide a separate group of general ledger accounts for distinct trust projects.

Campus Response

We concur. Individual funds have been established in the new PeopleSoft system to accommodate recommendation number 11. Trust fund documentation is being reviewed and a goal of March 31, 2005, has been set to review and complete all documentation for each trust fund.

TRUST FUND EARNINGS

Investment earnings were not allocated to health center trust accounts.

We noted that interest earnings from health services and facilities fees were being redirected to the University Discretionary Fund.

CSUSM presidential memorandum, *Allocation of 03/04 Interest Earnings*, dated June 19, 2003, states, in part, that in order to address mandatory campus needs, interest earnings from health services and facilities fees would be redirected to the University Discretionary Fund. This change in campus policy will be ongoing and will include the interest earnings from fiscal year 2003/04 investments.

EO 814, *Policy on University Health Services*, effective July 1, 2002, states, in part, that all proceeds of the mandatory student health fee and fees for augmented health services, both revenue and interest earned, shall be used to support Student Health Center operations.

The university controller stated that the interest earned was being used to cover direct and indirect costs provided to health services.

Withholding investment earnings from health center trust accounts reduces the monies available to support Student Health Center operations.

Recommendation 12

We recommend that the campus take immediate action to ensure that income earned on the investment of health center trust funds is credited to the appropriate health center trust accounts.

Campus Response

We concur. Interest earnings that were allocated to the health center trust funds have been recorded correctly in September 2004. Future interest earnings will be correctly allocated.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Karen S. Haynes	President
Terry L. Allison	Interim Vice President and Chief Financial Officer, Finance and Administrative Services
Shirley Brady	University Controller
James Carr	Materials Management Lead, Procurement and Support Services
Thea Chadwick	Assistant to the Vice President, Student Affairs
Kathleen Corona	Office Manager, Human Resources and Equal Opportunity
Deborah Coronado	Associate Director and Benefits Manager, Human Resources and Equal Opportunity
Susan Costa	Accounts Technician, Procurement and Support Services
William Craig	Team Leader, Academic Technology Services
Nancy Crowley	University Collections/Finance Reporting Coordinator, Student Financial Services
Donna Dawn	Assistant to the Director, Office of Admissions
Barbara Dovenbarger	Director, Internal Audit
Suzanne Green	Associate Vice President, Finance and Business Services
Tina Griffith	Accountant
Henry Gudino	Accountant
Linda Hawk	Director, Student Financial Services
Michael Irick	Assistant Director, Academic Technology Services
Irene LaPolice	Deputy Controller, Payroll Services
Michele Laurenzana	Accounts Payable Lead
Teresa Macklin	Director, Academic Technology Services
Dean Manship	Director, Business Planning and Information Management
Francine Martinez	Vice President for Student Affairs
Robert Page	Director, Systems Operations and Development
Diane Petersen	Team Leader, Systems Development and Software Engineering
Tracey Richardson	Academic and Event Scheduling Coordinator, Academic Programs
Barbara Sainz	Commodities/AP/Materials Management Coordinator, Procurement and Support Services
Paul Tiglao	Systems Development and Enhancement Coordinator, Student Financial Services
Agnes Tobe	Accountant
Art Torres	Director, Procurement and Support Services
Wayne Veres	Chief Information Officer
Susan Wallace	Accountant
Robert Williams	Business Operations and Technology Coordinator, Parking Services
Daniel Zorn	CMS Finance Project Manager

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 that 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 recordkeeping 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.




Office of the Interim Vice President and CFO, Finance and Administrative Services
California State University San Marcos San Marcos, California 92096-0001 USA
Tel: 760 750-4950; Fax: 760 750-4949
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MEMORANDUM



DATE: November 12, 2004

TO: Larry Mandel
University Auditor
The California State University

FROM: Terry L. Allison 
Interim Vice President and Chief Financial Officer
Finance and Administrative Services
California State University San Marcos

SUBJECT: Campus Responses to Recommendations of Audit Report No. 04-06,
FISMA at California State University, San Marcos

Attached for your consideration and acceptance are campus responses to the recommendations of the Office of the University Auditor's recent *FISMA* review.

Please contact me at (760) 750-4950 or tallison@csusm.edu if you have any questions.

Attachment

TLA:kjh

cc: President Karen S. Haynes

FISMA
at

**CALIFORNIA STATE UNIVERSITY,
SAN MARCOS**

Report Number 04-06
October 13, 2004

Response to Recommendations 1 through 12

CASH RECEIPTS

FEE AUTHORIZATION

Recommendation 1

We recommend that the campus take appropriate action to obtain approval from the Chancellor for the Academic Technology Services Equipment Fee and strengthen controls to ensure that fee actions are properly assessed and approved in the future.

Campus Response

We concur. On August 20, 2004, the Chancellor issued Executive Order 916 authorizing the campus to establish the Academic Technology Services Equipment Fee. The campus, through the Student Fee Advisory Committee chairperson, will ensure the process outlined in Executive Order 740 to establish, adjust, or abolish campus fees is followed prior to implementation.

FEE RECONCILIATIONS

Recommendation 2

We recommend that the campus reconcile applications fees received within one month after the end of each academic term being reconciled.

Campus Response

We concur. Procedures have been put into place to request data and complete the reconciliations within the month following the end of each academic year term. The due dates have been recorded in the task list of the University Controller and the responsible accountant.

REMITTANCES TO THE STATE TREASURER

Recommendation 3

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

Campus Response

We concur. A cash report is run each Monday, the remittance completed, and the journal to record the remittance is submitted to the University Controller. If no remittance is required, the cash report is forwarded to the University Controller for verification. A staffing shortage and a change in duties delayed the frequency of these remittances.

ACCOUNTS RECEIVABLE**Recommendation 4**

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

Campus Response

We concur. The University will add verbiage to its current procedures by December 1, 2004 that requires service departments to submit invoice requests to Student Financial Services within 45 days from the date of receipt of goods or services. This will be communicated to all end users via quarterly business managers meetings. Invoice requests that are submitted outside of this time frame will be referred to the Director of Student Financial Services who will take the appropriate action, in coordination with the department manager, to ensure compliance.

PURCHASING**Recommendation 5**

We recommend that the campus:

- a. Retain documentation to support authorization of single and monthly purchase limit increases.
- b. Establish procedures to prevent and detect splitting of purchases to avoid credit card limits and discourage inappropriate purchases.
- c. Strengthen supervision of monthly reconciliations of credit card charges to supporting documents, as well as general timeliness of the reconciliations.

Campus Response

We concur with the audit recommendations and will:

- a. Retain documentation to support authorization of single and monthly purchase limit increases. Documentation should be maintained by the appropriate individual administrator starting December 1, 2004. This aspect will be enhanced by a corresponding log maintained by the ProCard administrator. The log is to have an entry for each authorization of single and/or monthly purchase limit increases.

- b. Establish procedures by December 1, 2004, to prevent and detect splitting of purchases to avoid credit card limits and discourage inappropriate purchases. Quarterly training will begin by December 2004 to remind and instruct cardholders of appropriate uses for their ProCard and to discourage and avoid inappropriate transactions, such as the splitting of purchases.
- c. Strengthen supervision of monthly reconciliations of credit card charges to supporting documents, as well as general timeliness of the reconciliations. Monthly notification to all cardholders has been initiated as of September 2004 as a reminder to keep reconciliations current.

By the end of November 2004: The ProCard manual will reflect all of the requirements, bringing all issues current. Monthly reminders will be sent to the ProCard administrators and cardholders, reminding them of their responsibilities pertaining to ProCard issues. Quarterly training will cover "do's and don'ts" and the reconciliation process.

In addition to a, b, & c, we plan to audit the documentation of the ProCard population which consists of 100 cards as follows:

- Phase I - Catch up phase to audit 03/04: Accounts Payable contacted all cardholders on October 25, 2004. The goal is to complete this phase by April 2005.
- Phase II - Ongoing audits: Going forward, all cards will be audited according to established policy of once every two years (an average of 4 per month), with new cardholders being audited every 3 months. This phase will commence when Phase I is complete.

REVOLVING FUND

Recommendation 6

We recommend that the campus ensure that travel expenses and travel expense claims are supported by appropriate documentation.

Campus Response

We concur with the recommendation. At the time of the FISMA audit, the travel desk was instructed to conduct Post-Audit of travel expense claims. As such, anomalies could only be discovered after the fact. As of August 1, 2004, the travel desk is conducting Pre-Audits of all travel claims to ensure that all necessary documentation is submitted and properly filed with each claim.

In addition, as of December 2004, travel training sessions will be increased from twice a year to quarterly to instruct and remind appropriate campus personnel of the travel documentation requirements.

CASH DISBURSEMENTS

Recommendation 7

We recommend that the campus promptly process the noted long-outstanding checks and establish procedures to ensure that future long-outstanding checks are processed in a timely manner.

Campus Response

We concur. All long-standing checks were escheated during July 2004. A policy is in place to meet these requirements; however a staffing shortage delayed the processing.

PAYROLL AND PERSONNEL

EMPLOYEE SEPERATION

Recommendation 8

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

Campus Response

We concur. Our goal has been to educate the campus on the importance of reporting employee separations to Payroll in a timely manner. On July 21, 2004, the Deputy Controller of Payroll distributed a memo to all campus Deans, Directors, Department Managers and Supervisors entitled “Payment of Wages for Employee Separation.” The memo reminded the campus of the labor code requirement to pay separating employees immediately (or within 72 hours in certain circumstances), and gave instructions on how to report these events to Payroll in a timely manner. This issue has also been addressed in the Business Manager’s Roundtable held September 17, 2004, and in various training workshops conducted by Payroll, on timesheets and attendance reporting.

ADDITIONAL EMPLOYMENT

Recommendation 9

We recommend that the campus document procedures for monitoring all additional employment and distribute the procedures to all employees responsible for the process.

Campus Response

We concur. We are in the process of writing campus guidelines and procedures for monitoring all additional employment and we will distribute the procedures to employees responsible for monitoring additional employment of employees, to be completed by March 30, 2005. We are using CSU HR 2002-05, Additional Employment Policy, dated February 19, 2002, as a resource to develop the written guidelines and procedures.

FIXED ASSETS

Recommendation 10

We recommend that the campus strengthen controls to ensure the timely recording and reconciliation of property transactions.

Campus Response

We concur. The campus is currently recording and reconciling property transactions on a monthly basis.

TRUST FUNDS

TRUST FUND ADMINISTRATION

Recommendation 11

We recommend that the campus maintain:

- a. Complete trust fund documentation on file.
- b. Sufficient accounting detail to provide a separate group of general ledger accounts for distinct trust projects.

Campus Response

We concur. Individual funds have been established in the new PeopleSoft system to accommodate recommendation number 11. Trust Fund documentation is being reviewed and a goal of March 31, 2005, has been set to review and complete all documentation for each Trust Fund.

TRUST FUND EARNINGS

Recommendation 12

We recommend that the campus take immediate action to ensure that income earned on the investment of health center trust funds is credited to the appropriate health center trust accounts.

Campus Response

We concur. Interest earnings that were allocated to the health center trust funds have been recorded correctly in September 2004. Future interest earnings will be correctly allocated.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

December 6, 2004

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

MEMORANDUM

FRESNO

FULLERTON

TO: Mr. Larry Mandel
University Auditor

HAYWARD

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 04-06 on *FISMA*,
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of December 6, 2004, I accept the response as submitted with the draft final report on *FISMA*, California State University, San Marcos.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/al

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Terry L. Allison, Interim Vice President and Chief Financial Officer,
Finance and Administrative Services
Dr. Karen S. Haynes, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS