

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

**Report Number 05-08
March 9, 2006**

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ABBREVIATIONS

CEL	College of Extended Learning
CS	Conference Services
CSU	California State University
CSUSB	California State University, San Bernardino
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
HRL	Housing and Residential Life
IEP	International Education Program
PS	Parking Services
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 *International 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 Bernardino (CSUSB) 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.

We visited the CSUSB campus from October 17, 2005, through December 15, 2005, and made a study and evaluation of the accounting and administrative control in effect as of December 15, 2005. 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, accounts receivable, purchasing, revolving fund, fixed assets, trust funds, and PeopleSoft implementation. 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, CSUSB's accounting and administrative control in effect as of December 15, 2005, 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 changes 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]

Cash control weaknesses were found at each of the three satellite cashiering areas visited. Although the campus demonstrated that there was a process in place at parking services for the reconciliation of parking permits by decal number to cash received and to the general ledger, formal reconciliations were not printed, signed, and dated by the preparer and reviewer. In addition, the College of Extended Learning (CEL) conference services did not always endorse checks on the day of receipt, and cash received at housing and residential life and by CEL conference services and its international education program was not always adequately safeguarded. Further, application fee reconciliations were not always timely prepared and approved.

ACCOUNTS RECEIVABLE [9]

Pursuit of delinquent accounts receivable, write-offs, and requests for discharge from accountability for payroll and third-party receivables needed improvement. The failure to apply for discharge from accountability for receivables older than two years was a repeat finding from the prior FISMA audit.

PURCHASING [11]

Open purchase orders were not always timely investigated and resolved. A review of 14 open encumbrances as of August 2005 showed three open purchase orders dated between August 2003 and May 2004 with remaining funds totaling \$22,115 that should have been closed.

REVOLVING FUND [12]

Certain revolving fund reconciliations were not timely prepared. The July 2005 revolving fund reconciliation was not completed until 58 days after month end, and the August 2005 reconciliation had not been approved as of December 2005.

CASH DISBURSEMENTS [13]

Bank reconciliations were not timely prepared. The most recent bank reconciliation was for June 2005.

FIXED ASSETS [14]

Property reconciliations were not properly completed or timely prepared. A review of reconciliations in December 2005 showed that the most recent property reconciliation was for June 2005. In addition, the reconciliation was not signed and dated by the preparer and reviewer.

TRUST FUNDS [15]

The CEL trust fund had a negative cash balance of \$487,041 and a negative fund balance of \$1,718,886 as of June 30, 2005. This is a repeat finding from the prior FISMA audit.

PEOPLESOFT IMPLEMENTATION [15]

Accounts receivable reconciliations were not properly completed or timely prepared. A review of reconciliations in December 2005 showed that the most recent accounts receivable reconciliation was for July 2005. In addition, the reconciliation lacked a preparation date and was not approved until 77 days after month end.

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 guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International 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 2004/05 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was January 2004 to August 2005. 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 December 15, 2005. 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

SATELLITE CASHIERING

Cash control weaknesses were found at each of the three satellite cashiering areas visited.

The satellite cashiering locations reviewed included housing and residential life (HRL), parking services (PS), and the College of Extended Learning (CEL).

Parking Receipts

Although the campus demonstrated that there was a process in place at PS for the reconciliation of parking permits by decal number to cash received and to the general ledger, formal reconciliations were not printed, signed, and dated by the preparer and reviewer.

State Administrative Manual (SAM) §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications and requires monthly preparation of all reconciliations within 30 days of the preceding month.

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

The director of accounting stated that controls were in place for the reconciliation and that names and dates for the reviewer and preparer needed to be included.

Restrictive Endorsement of Checks

Checks received by CEL conference services (CEL-CS) were not always restrictively endorsed on the day of receipt.

We noted that at CEL-CS off-site weekend conferences, checks collected were not endorsed on the same day they were received. Instead, checks were endorsed after they were brought to the campus and prepared for deposit.

SAM §8034.1 and §8023 require checks and other negotiable instruments to be endorsed on the day they are received.

The manager of CEL fiscal and business services stated that because there had been an immaterial level of cash receipt transactions, additional controls were not implemented.

Safety of Funds

Cash was not always adequately safeguarded by HRL, CEL-CS, and the CEL international education program (CEL-IEP).

We found that:

- ▶ At HRL, checks were not placed in cash drawers or other secured storage facility upon receipt from customers. Instead, the checks were placed in a folder.
- ▶ Currency and checks collected off-site by CEL-CS were not adequately safeguarded until deposited. Weekend conferences required that funds be kept in the field overnight.
- ▶ Checks and currency received by the CEL-IEP were not placed in cash drawers or other secured storage facility upon receipt from customers. Instead, receipts were kept in a folder.

SAM §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

SAM §20050 defines internal control as a process designed to provide an organization reasonable assurance regarding the achievement of certain objectives, including the safeguarding of assets.

The manager of CEL fiscal and business services stated that because there had been an immaterial level of cash receipt transactions, additional controls were not implemented.

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

Recommendation 1

We recommend that the campus:

- a. Prepare documented reconciliations of parking permits issued in numeric sequence to revenue recorded in the general ledger on at least a quarterly basis, which include the preparer and reviewer names and the dates prepared and reviewed.
- b. Ensure that all checks received by CEL-CS are restrictively endorsed by the end of the day.
- c. Ensure that all cash and checks by HRL, CEL-CS, and the CEL-IEP are adequately safeguarded in a secured storage facility upon receipt from customers and prior to deposit.

Campus Response

The campus concurs with the recommendations. Processes will be implemented and communicated to applicable staff to accomplish the following actions:

- a. A process will be implemented whereby the director of PS will verify that the parking permit reconciliations have been completed on a quarterly basis. The reconciliation documentation will include a cover sheet with signature and date lines to be signed and dated by the preparer and reviewer of parking permit reconciliations. Documentation verifying the completion of this action will be submitted by April 30, 2006.
- b. The manager of fiscal and business services in the CEL has obtained an endorsement stamp for off-site activities and is ensuring that checks are endorsed by the end of the day. Documentation verifying the completion of this action will be submitted by April 30, 2006.
- c. HRL has purchased a locking cabinet for the storage of cash and checks. The CEL has purchased lock boxes for the storage of cash and checks in the CS and international education programs. Documentation verifying the completion of these actions will be submitted by April 30, 2006.

APPLICATION FEE RECONCILIATIONS

Application fee reconciliations were not always timely prepared and approved within one month after the end of the academic term being reconciled.

Our review of application fee reconciliations for the three quarters between fall 2004 and spring 2005 disclosed that in two instances, application reconciliations were not prepared by one month after the end of the academic quarter. Instead, the reconciliations were prepared two months after their quarterly due dates.

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

The director of accounting stated that the application fee reconciliation had been completed in a timely manner for the 18 months following the last Financial Integrity and State Manager's Accountability Act (FISMA) audit (January 2004 through June 2005). She further stated that due to an unanticipated shortage of staff during July through September 2005, the reconciliation was not completed in a timely manner.

Failure to reconcile fees timely within the appropriate period increases the risk that errors and irregularities will not be detected.

Recommendation 2

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

Campus Response

The campus concurs with the recommendation. A procedure has been implemented whereby the bursar supervisor will verify that applications for admission are reconciled to fees within one month after the end of the academic term in which the fees were received. Documentation verifying the completion of this action will be submitted by April 30, 2006.

ACCOUNTS RECEIVABLE

Pursuit of delinquent accounts receivable, write-offs, and requests for discharge from accountability for payroll and third-party receivables needed improvement.

The failure to apply for discharge from accountability for receivables older than two years was a repeat finding from the prior FISMA audit.

Payroll Receivables

Our review of ten payroll accounts receivable dated between 2001 and 2005 disclosed that:

- ▶ In four instances, a sequence of three collection letters in 30-day intervals was not sent.
- ▶ In five instances, offsets against possible tax refunds had not been made to the Franchise Tax Board.
- ▶ In four instances where receivables were outstanding for three or more years and employees had terminated, accounts were not written-off and applications for discharge from accountability had not been submitted.

Third-Party Receivables

Our review of ten delinquent third-party accounts receivable over 90-days disclosed that seven of the accounts were long-outstanding from between 1997 and 2002, and had neither been written-off nor had a discharge from accountability been sought.

SUAM §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, utilization of the offset claim procedures for accounts greater than \$10.

SAM §8776.7 provides collection procedures to be employed in the collection of amounts due from employees.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables. Further, once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If the collection letters are unsuccessful, an analysis should be prepared with additional collection efforts to include contracting with a collection agency. Further, if all reasonable collection procedures do not result in payment, departments should initiate one or more actions including, but not limited to, discharge from accountability of uncollectible amounts due from private entities.

Executive Order 616, *Discharge of Accountability*, dated April 19, 1994, delegates authority to the campus for local adjustments of up to \$1,000 that are determined to be uncollectible or where the amount does not justify the collection costs. Discharge from accountability does not release debtors from their obligation to the campus.

The director of accounting stated that the accounts dated back several years prior to PeopleSoft conversion and many of the support documentation required to apply for discharge from accountability were gone and irreplaceable. The vice president of administration and finance stated his belief that failure to write-off uncollectible accounts was due to focus being placed on pursuing collection of these accounts.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk that that receivables will not be properly reflected in the campus financial statements.

Recommendation 3

We recommend that the campus:

- a. Strengthen procedures to ensure that accounts receivable are promptly pursued through the use of collection letters and tax offset.
- b. Analyze accounts receivable to determine which receivables are uncollectible and write-off or request discharge from accountability for those receivables greater than two years old.

Campus Response

The campus concurs with the recommendations. Processes have been implemented and communicated to applicable staff to accomplish the following actions:

- a. Collection procedures have been strengthened to include use of collection letters and tax offset. For example, accounts receivable are analyzed on a monthly basis. Accounts that have not been cleared after three notification letters are referred to a collection agency at 30-, 60-, and 90-day intervals. Outstanding receivables that are delinquent in October will be transferred to the Franchise Tax Board. Documentation verifying the completion of this action will be submitted by April 30, 2006.
- b. Supervisors for general accounting, student accounts, and payroll are responsible for analyzing accounts receivable on a quarterly basis. Receivables deemed to be uncollectible and greater than two years old are processed for discharge from accountability (either through chancellor's office for private entities or State Controller's Office). At this time, all uncollectible receivables over two years old have been submitted for discharge from accountability. Documentation verifying the completion of this action will be submitted by April 30, 2006.

PURCHASING

Open purchase orders were not always timely investigated and resolved.

Our review of 14 open encumbrances as of August 2005 showed three open purchase orders from August 2003, October 2003, and May 2004 with remaining funds totaling \$22,114.51 that should have been closed.

SAM §20050 states in part that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

The director of procurement and support services stated that it was unclear whether or not purchasing was primarily responsible for investigating the status of departmental open purchase orders.

Failure to resolve long-outstanding encumbered purchase orders could impair budget analysis and planning and result in less than optimal decision making.

Recommendation 4

We recommend that the campus establish achievable monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

Campus Response

The campus concurs with the recommendation and will establish achievable monitoring procedures by April 1, 2006, to ensure that purchase orders are processed or otherwise resolved in a timely manner. Purchase order close-out forms will be utilized to document the monitoring of open purchase orders. An expeditor (administrative assistant) will be responsible for monitoring aging open orders and will provide periodic status reports to the director of procurement and support services to ensure that orders are closed out in a timely manner. Documentation verifying the completion of this action will be submitted by April 30, 2006.

REVOLVING FUND

Certain revolving fund reconciliations were not timely prepared.

We found that the July 2005 revolving fund reconciliation was not completed until September 27, 2005, 58 days after month end. In addition, the August 2005 reconciliation had not been approved as of December 2005.

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

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

SAM §8193 states that two monthly reconciliations are required for revolving fund transactions. The Revolving Fund Cash Book balance plus the general ledger balance of Account No. 1110, General Cash, and Account No. 1120, Agency Trust Fund Cash, will be reconciled to the General Checking Account in the centralized State Treasury system. Also, the revolving fund resources will be reconciled with the amount of cash advanced as shown in Account No. 1130 of the funds concerned.

The director of accounting stated that the revolving fund reconciliation had been completed in a timely manner for the 18 months following the last FISMA audit (January 2004 through June 2005). She further stated that due to an unanticipated shortage of staff during July through September 2005, the reconciliation was not completed in a timely manner.

Untimely and incomplete reconciliations increase the risk that errors and irregularities will not be detected and state funds will be lost.

Recommendation 5

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination.

Campus Response

The campus concurs with the recommendation. A Generally Accepted Accounting Principles (GAAP) auditing team comprised of two professional accountants will serve as back-up staff for the accounting technician who prepares the reconciliations. A recruitment to hire the GAAP accountants has produced one qualified applicant who recently began employment. It is anticipated that the second position will be filled by June 30, 2006. Documentation verifying the completion of this action will be submitted upon completion of the recruitment.

CASH DISBURSEMENTS

Bank reconciliations were not timely prepared.

The most recent bank reconciliation was for June 2005.

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

SAM §8060 states that all bank and centralized State Treasury system accounts will be reconciled promptly at the end of each month.

The director of accounting stated that the bank reconciliation had been completed in a timely manner for the 18 months following the last FISMA audit (January 2004 through June 2005). She further stated that due to an unanticipated shortage of staff during July through September 2005, the reconciliation was not completed in a timely manner.

Untimely and incomplete reconciliations increase the risk that errors and irregularities will not be detected and state funds will be lost.

Recommendation 6

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination.

Campus Response

The campus concurs with the recommendation. A GAAP auditing team comprised of two professional accountants will serve as back-up staff for the accounting technician who prepares the reconciliations. A recruitment to hire the GAAP accountants has produced one qualified applicant who recently began employment. It is anticipated that the second position will be filled by June 30, 2006. Documentation verifying the completion of this action will be submitted upon completion of the recruitment.

FIXED ASSETS

Property reconciliations were not properly completed or timely prepared.

During our review of reconciliations in December 2005, we noted that although campus procedures included quarterly completion of property reconciliations, the most recent property reconciliation was for June 2005. In addition, the reconciliation was not signed and dated by the preparer and reviewer.

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

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

The director of accounting stated that the fixed assets reconciliation had been completed in a timely manner for the 18 months following the last FISMA audit (January 2004 through June 2005). She further stated that due to an unanticipated shortage of staff during July through September 2005, the reconciliation was not completed in a timely manner.

Untimely and incomplete reconciliations increase the risk of misstated property records and theft or loss of state property.

Recommendation 7

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination.

Campus Response

The campus concurs with the recommendation. A GAAP auditing team comprised of two professional accountants will serve as back-up staff for the accounting technician who prepares the reconciliations. A recruitment to hire the GAAP accountants has produced one qualified applicant who recently began employment. It is anticipated that the second position will be filled by June 30, 2006. Documentation verifying the completion of this action will be submitted upon completion of the recruitment.

TRUST FUNDS

The CEL trust fund had a negative cash balance of \$487,040.75 and a negative fund balance of \$1,718,885.55 as of June 30, 2005. This is a repeat finding from the prior FISMA audit.

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

The manager of CEL fiscal and business services stated his belief that the biggest influence on the college's negative financial performance was the elimination of a self-support summer session. He further stated that the fall-out from 9/11 caused sustained reductions in program activity for a few years. The vice president of administration and finance stated his belief that CEL was in a recovery process and that steady gains had been made toward decreasing the debt.

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

Recommendation 8

We recommend that the campus establish a written plan to address the negative CEL trust fund balances and strengthen oversight over CEL activities to ensure continued recovery.

Campus Response

The campus concurs with the recommendation. The CEL will increase its revenues and decrease expenses. The provost, CEL dean, and vice president of administration and finance will monitor the financial reports on a monthly basis. By August 15, 2006, the campus will provide a 2005/06 year-end closing report and a 2006/07 budget for the CEL.

PEOPLESOFT IMPLEMENTATION

Accounts receivable reconciliations were not properly completed or timely prepared.

During our review of reconciliations in December 2005, we noted that the most recent reconciliation of the accounts receivable subsidiary reconciliation to the general ledger was for July 2005. In addition, it lacked a preparation date and was not approved until October 17, 2005, which was 77 days after month end.

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

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

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

The associate director of accounting stated that the implementation of the PeopleSoft accounts receivable module in August 2005 caused delays in preparing the reconciliations. She further stated that in order to ensure that the system was working appropriately, she asked the preparer to monitor the system output for a few months to detect any errors that might be inherent in the new accounts receivable system before going any further. She added that there was a new staff person being trained to perform the reconciliation, which contributed to the delinquency.

Untimely and incomplete reconciliations limit the campus' ability to detect errors and irregularities and compromises accountability.

Recommendation 9

We recommend that the campus complete all accounts receivable reconciliations since PeopleSoft accounts receivable module implementation, while continuing to monitor system output to detect potential implementation errors.

Campus Response

The campus concurs with the recommendation. A process will be implemented to ensure that accounts receivable reconciliations are prepared in a timely manner. Documentation verifying the completion of this action will be submitted by April 30, 2006.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Albert K. Karnig	President
Karen Abbey	Property Manager
Lydia Acosta	Business Services Representative, College of Extended Learning (CEL)
William Aguilar	Vice President, Information Resources and Technology
Happy Almogela	Director, Housing and Residential Life (HRL)
Claudia Campos	Accounting Technician II, Bursar's Office
Gina Chavez	Accounting Technician II, Accounts Receivable
Debbie Craney	Assistant to Associate Provost/Academic Personnel
Kevin Curtis	Parking Services Supervisor
Pegeen Davison	Payroll Technician III, Lead
David DeMauro	Vice President, Administration and Finance
Shirley Dorsey	Payroll Manager
Mark Erickson	Manager, Fiscal and Business Services – CEL
Matias Farre	Bursar
Debbie Gawryluk	Confidential Office Support II, Human Resources
Randy Hanlin	Associate Director, HRL
Kathy Hansen	Director, Procurement and Support Services
Julie Keller	Accountant Supervisor
Shannon Kelley	Manager, Accounts Payable, Billing and Receivables
Vanessa Kragenbrink	Executive Assistant to the Vice President, Information Resources and Technology
Ruth Landeros	Administrative Coordinator of Business and Conferences, HRL
Laurel Lilienthal	Executive Assistant to the Provost, Academic Affairs
Karen Logue	Associate Director of Human Resources
Cindy Lopez	Administrative Analyst
Carolyn McDermid	Associate Director, Accounting
Jim O'Linger	Manager, Administration and Finance Technical Services
Owen Owens	Director, Telecommunications and Network Services
Linda Pella-Hartley	Aide to the Vice President, Administration and Finance
Sheryl Pytlak	Director, Accounting
William Takehara	Assistant Vice President, Financial Operations
Javier Torner	Information Security Officer, Information Resources and Technology
J. Paul Vicknair	Associate Provost for Academic Personnel

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University 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.



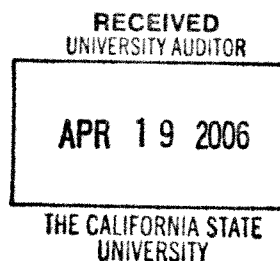
CALIFORNIA STATE UNIVERSITY
SAN BERNARDINO
Administration and Finance
Office of the Vice President

5500 University Parkway
San Bernardino, CA 92407-2397

(909) 537-5130

April 18, 2006

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210



re: Audit Report Number 05-08, *FISMA*, at California State University, San Bernardino

Dear Mr. Mandel:

As requested in your letter dated March 13, 2006, enclosed is the campus response to recommendations of Audit Report Number 05-08, *FISMA*. We have read the report, and we concur with the observations and recommendations. By separate correspondence, we will provide documents to demonstrate completion of corrective actions for each recommendation.

If you have questions or require additional information, please contact William Takehara, Associate Vice President for Financial Operations, at 909/537-5134.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. DeMauro'.

David DeMauro
Vice President for
Administration and Finance

c: Albert K. Karnig, President
Louis Fernández, Provost/VP for Academic Affairs
Kathy Hansen, Director, Procurement and Support Services
Sheryl Pytlak, Director, Accounting Services
William Takehara, AVP for Financial Operations

Enclosure

FISMA**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO****Report Number 05-08
March 9, 2006****CASH RECEIPTS****SATELLITE CASHIERING****Recommendation 1**

We recommend that the campus:

- a. Prepare documented reconciliations of parking permits issued in numeric sequence to revenue recorded in the general ledger on at least a quarterly basis, which include the preparer and reviewer names and the dates prepared and reviewed.
- b. Ensure that all checks received by CEL-CS are restrictively endorsed by the end of the day.
- c. Ensure that all cash and checks by HRL, CEL-CS, and the CEL-IEP are adequately safeguarded in a secured storage facility upon receipt from customers and prior to deposit.

Campus Response

The campus concurs with the recommendations. Processes will be implemented and communicated to applicable staff to accomplish the following actions:

- a. A process will be implemented whereby the Director of Parking Services will verify that the parking permit reconciliations have been completed on a quarterly basis. The reconciliation documentation will include a cover sheet with signature and date lines to be signed and dated by the preparer and reviewer of parking permit reconciliations. Documentation verifying the completion of this action will be submitted by April 30, 2006.
- b. The Manager of Fiscal and Business Services in the College of Extended Learning has obtained an endorsement stamp for off-site activities and is ensuring that checks are endorsed by the end of the day. Documentation verifying the completion of this action will be submitted by April 30, 2006.
- c. The Office of Housing and Residential Life has purchased a locking cabinet for the storage of cash and checks. The College of Extended Learning has purchased lock boxes for the storage of cash and checks in the Conference Services and International Extension programs. Documentation verifying the completion of these actions will be submitted by April 30, 2006.

APPLICATION FEE RECONCILIATIONS

Recommendation 2

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

Campus Response

The campus concurs with the recommendation. A procedure has been implemented whereby the Bursar supervisor will verify that applications for admission are reconciled to fees within one month after the end of the academic term in which the fees were received. Documentation verifying the completion of this action will be submitted by April 30, 2006.

ACCOUNTS RECEIVABLE

Recommendation 3

We recommend that the campus:

- a. Strengthen procedures to ensure that accounts receivable are promptly pursued through the use of collection letters and tax offset.
- b. Analyze accounts receivable to determine which receivables are uncollectible and write-off or request discharge from accountability for those receivables greater than two years old.

Campus Response

The campus concurs with the recommendations. Processes have been implemented and communicated to applicable staff to accomplish the following actions:

- a. Collection procedures have been strengthened to include use of collection letters and tax offset. For example, accounts receivable are analyzed on a monthly basis. Accounts that have not been cleared after three notification letters are referred to a collection agency at 30-, 60-, and 90-day intervals. Outstanding receivables that are delinquent in October will be transferred to the Franchise Tax Board. Documentation verifying the completion of this action will be submitted by April 30, 2006.
- b. Supervisors for General Accounting, Student Accounts, and Payroll are responsible for analyzing accounts receivable on a quarterly basis. Receivables deemed to be uncollectible and greater than two years old are processed for discharge of accountability (either through Chancellor's Office for private entities or State Controller's Office). At this time, all uncollectible receivables over two years old have been submitted for discharge of accountability. Documentation verifying the completion of this action will be submitted by April 30, 2006.

PURCHASING

Recommendation 4

We recommend that the campus establish achievable monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

Campus Response

The campus concurs with the recommendation and will establish achievable monitoring procedures by April 1, 2006, to ensure that purchase orders are processed or otherwise resolved in a timely manner. Purchase order close-out forms will be utilized to document the monitoring of open purchase orders. An expeditor (administrative assistant) will be responsible for monitoring aging open orders and will provide periodic status reports to the Director of Procurement and Support Services to ensure that orders are closed out in a timely manner. Documentation verifying the completion of this action will be submitted by April 30, 2006.

REVOLVING FUND

Recommendation 5

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination.

Campus Response

The campus concurs with the recommendation. A GAAP auditing team comprised of two professional accountants will serve as back-up staff for the accounting technician who prepares the reconciliations. A recruitment to hire the GAAP accountants has produced one qualified applicant who recently began employment. It is anticipated that the second position will be filled by June 30, 2006. Documentation verifying the completion of this action will be submitted upon completion of the recruitment.

CASH DISBURSEMENTS

Recommendation 6

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination.

Campus Response

The campus concurs with the recommendation. A GAAP auditing team comprised of two professional accountants will serve as back-up staff for the accounting technician who prepares the reconciliations. A recruitment to hire the GAAP accountants has produced one qualified applicant who recently began employment. It is anticipated that the second position will be filled by

June 30, 2006. Documentation verifying the completion of this action will be submitted upon completion of the recruitment.

FIXED ASSETS

Recommendation 7

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination.

Campus Response

The campus concurs with the recommendation. A GAAP auditing team comprised of two professional accountants will serve as back-up staff for the accounting technician who prepares the reconciliations. A recruitment to hire the GAAP accountants has produced one qualified applicant who recently began employment. It is anticipated that the second position will be filled by June 30, 2006. Documentation verifying the completion of this action will be submitted upon completion of the recruitment.

TRUST FUNDS

Recommendation 8

We recommend that the campus establish a written plan to address the negative CEL trust fund balances and strengthen oversight over CEL activities to ensure continued recovery.

Campus Response

The campus concurs with the recommendation. The College of Extended Learning will increase its revenues and decrease expenses. The Provost, CEL Dean, and Vice President for Administration and Finance will monitor the financial reports on a monthly basis. By August 15, 2006, the campus will provide a 2005/06 year-end closing report and a 2006/07 budget for the College of Extended Learning.

PEOPLESOFT IMPLEMENTATION

Recommendation 9

We recommend that the campus complete all accounts receivable reconciliations since PeopleSoft accounts receivable module implementation, while continuing to monitor system output to detect potential implementation errors.

Campus Response

The campus concurs with the recommendation. A process will be implemented to ensure that accounts receivable reconciliations are prepared in a timely manner. Documentation verifying the completion of this action will be submitted by April 30, 2006.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

April 25, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-08 on *FISMA*,
California State University, San Bernardino

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of April 25, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, San Bernardino.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. David DeMauro, Vice President for Administration and Finance
Dr. Albert K. Karnig, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS