

FISMA

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**Audit Report 07-06
May 7, 2008**

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ABBREVIATIONS

BSS	Business Support Services
CSC	Campus Service Center
CSU	California State University
CSUMB	California State University, Monterey Bay
EE	Extended Education
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
FTB	Franchise Tax Board
GC	Government Code
HR	Human Resources
IT	Information Technology
SAM	State Administrative Manual
SCO	State Controller's Office
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, Government Code (GC) Sections 13400 through 13407. 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 GC, 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, Monterey Bay (CSUMB) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with GC, 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.
- ▶ Established controls are not only effective but also promote operational efficiency.
- ▶ 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 CSUMB campus from November 26, 2007, through February 8, 2008, and made a study and evaluation of the accounting and administrative control in effect as of February 8, 2008. This report represents our biennial review.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report.

In our opinion, CSUMB's accounting and administrative control in effect as of February 8, 2008, 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 [8]

Cash control weaknesses were found at two of the three satellite cashiering areas visited. The satellite cashiering locations reviewed included the Campus Service Center (CSC), extended education (EE), and business and support services (BSS). Duties and responsibilities related to cashiering and the deposit of cash receipts were not properly segregated at EE and BSS. Specifically, the EE cashier and the BSS contracts coordinator received and processed payments, posted cash receipts, and/or prepared deposits. In addition, checks and/or credit card payments collected by EE during off-site events were not endorsed on the day of receipt and were transported to the campus in a sealed envelope rather than a locked container. Lastly, the BSS department did not account for press-numbered receipts that were issued during the bid process for non-refundable fees nor did the cashier maintain inventory control over these receipts.

ACCOUNTS RECEIVABLE [9]

The process for the pursuit of delinquent employee accounts receivable needed improvement. This is a repeat finding from the prior FISMA audit. A review of five delinquent employee accounts receivables from January 2006 to September 2007 disclosed that in all five instances, collection correspondence was inconsistent, untimely, and/or could not be located. The insufficient collection activity of all five receivables prevented submission of these account balances to the Franchise Tax Board for tax offset. In addition, collection activity on past-due payroll accounts receivable was not always timely or adequately documented. This is a repeat finding from the prior FISMA audit. A review of ten payroll accounts receivables for the same time period disclosed that in three instances, there was no evidence of collection activity until June 2007 and January 2008 for overpayments that occurred in January and April 2005, and July 2007, respectively. For the January 2005 overpayment, there was also no correspondence or evidence of collection activity or payment after August 2007, and correspondence or evidence of resolution of the April 2005 overpayment was also not in file. Lastly, the campus did not seek discharge of accountability from the State Controller's Office (SCO) for those accounts over \$1,000, which had been deemed uncollectible.

PURCHASING [13]

Campus procurement card policies and procedures were not always enforced to ensure the timely submission of procurement card reconciliations. A review of 20 procurement card statements for ten employees for the months of June 2007 and September 2007 disclosed that 16 monthly statement reconciliations were forwarded to accounts payable between 3 and 32 days after the due date established by the procurement card administrator.

OPERATING FUND [14]

Salary and travel advances were not always timely recovered and documentation of collection activities and appropriate follow-up needed improvement. This is a repeat finding from the prior FISMA audit. Three of ten salary and travel advances issued between January 2006 and September 2007 were outstanding between 145 and 186 days, and 68 and 124 days, respectively.

PAYROLL AND PERSONNEL [15]

Federal Form I-9, Employment Eligibility Verification, was not always timely completed for two of ten new hires and in one instance, the Form I-9 was on file since August 2005 and was not signed by the employee. Employee separation procedures did not always ensure that clearance checklists were completed in a timely manner for six of ten employees that separated from January 2006 to September 2007. This is a repeat finding from the prior FISMA audit. Lastly, undelivered salary warrants were not properly controlled and remitted to the SCO for final escheatment. This is a repeat finding from the prior FISMA audit. A review of undelivered salary warrants maintained in the safe at the CSC disclosed that the CSC lacked written records of the undelivered warrants, the warrants not delivered to employees within five days of receipt were not returned to the CSC for disposition, and procedures were not in place to deposit and remit undelivered warrants greater than 90 days to the SCO escheat account.

FIXED ASSETS [17]

Property acquisitions were not always properly controlled or recorded accurately or timely into the accounting records. A review of ten property purchases/acquisitions and 22 deletions/disposals between January 2006 and September 2007 disclosed that in two instances, the property could not be located, including one asset that was inventoried in June 2007. For various other instances, the property was missing its tag; delivered to the department by the vendor without being tagged, capitalized, or added to the fixed assets listing; recorded to the general ledger for incorrect amounts ranging from undercapitalization of \$683.55 to overcapitalization of \$8,082.31; and was still in use however, it was removed from the campus fixed assets listing. In addition, the campus experienced property losses and/or thefts of \$45,428 as of September 30, 2007, which represents an increase of approximately \$30,000 in this area since the prior FISMA audit. Lastly, campus loan agreement forms were not always completed and approved for off-campus use of university laptops and/or portable devices. A review of ten of these items used by campus personnel disclosed that loan agreement forms were not on file in eight instances.

INTRODUCTION

STATEMENT OF INTERNAL CONTROLS

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. The ultimate responsibility for good internal control rests with management.

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, personnel of a quality commensurate with responsibilities, and an effective system of internal review.

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.

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.

Experience indicates that the existence of certain danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individual units or activities, and generally include any of the following danger signals:

- ▶ Policy and procedural or operational manuals are either not currently maintained or are non-existent.
- ▶ Lines of organizational authority and responsibility are not clearly articulated or are non-existent.
- ▶ Financial and operational reporting is not timely and is not used as an effective management tool.

- ▶ Line supervisors ignore or do not adequately monitor control compliance.
- ▶ No procedures are established to assure that controls in all areas of operation are evaluated on a reasonable and timely basis.
- ▶ Internal control weaknesses detected are not acted upon in a timely fashion.
- ▶ Controls and/or control evaluations bear little relationship to organizational exposure to risk of loss or resources.

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.

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.
- ▶ Operating 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 2006/07 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 1, 2006, to September 30, 2007. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ 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 operating 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.

INTRODUCTION

We have not performed any auditing procedures beyond February 8, 2008. 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

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

The satellite cashiering locations reviewed included the Campus Service Center (CSC), extended education (EE), and business and support services (BSS).

We found that:

- ▶ Duties and responsibilities related to cashiering and the deposit of cash receipts were not properly segregated at EE and BSS. Specifically, we found that the EE cashier and the BSS contracts coordinator received and processed payments, posted cash receipts, and/or prepared deposits.
- ▶ Checks and/or credit card payments collected by EE during off-site events were not endorsed on the day of receipt and were transported to the campus in a sealed envelope rather than a locked container.
- ▶ The BSS department did not account for press-numbered receipts that were issued for non-refundable plan fees associated with public works bid packages nor did the cashier maintain inventory control over these receipts.

State Administrative Manual (SAM) §8020 states that an inventory control will be kept for press-numbered receipts.

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

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: maintaining books of original entry, receiving and depositing remittances, and posting receipts information to the general ledger.

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.

The associate vice president of finance stated that the satellite cashiers' cash control weaknesses were addressed.

Inadequate control and segregation of duties over cash receipts increase campus exposure to loss from irregular activities.

Recommendation 1

We recommend that the campus ensure that:

- a. Duties and responsibilities related to cashiering and the deposit of cash receipts are properly segregated at all satellite cashier locations.
- b. Checks and/or credit card payments collected are endorsed on the day of receipt and are transported when necessary to the campus in a secured envelope or other container, which ensures that deposits are safeguarded.
- c. An inventory control system for press-numbered receipts that includes all satellite cashier locations is implemented and that copies are retained for audit purposes.

Campus Response

We concur. Corrective action has already occurred. Reassignment of duties to properly segregate activities has occurred, payments are properly endorsed and safeguarded, and an inventory of press numbered receipts is maintained.

ACCOUNTS RECEIVABLE

DELINQUENT EMPLOYEE ACCOUNTS RECEIVABLE

The process for the pursuit of delinquent employee accounts receivable needed improvement. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Our review of five delinquent employee accounts receivables from January 2006 to September 2007 disclosed the following:

- ▶ In all five instances, collection correspondence was inconsistent, untimely, and/or could not be located.
- ▶ The insufficient collection activity of all five receivables prevented submission of these account balances to the Franchise Tax Board (FTB) for tax offset.

State University Administrative Manual (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, and utilization of the offset claim procedures for accounts greater than \$10.

SAM §8776.6 states that once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

The payroll manager stated that deficient collection activity was a result of staff turnover.

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

Recommendation 2

We recommend that the campus:

- a. Implement procedures to ensure timely collection activities are properly documented and collection correspondence is retained on file.
- b. Submit delinquent account balances to the FTB for tax offset.

Campus Response

We concur. The payroll manager has implemented internal controls to facilitate timely recovery and retention of collection correspondence. California State University, Monterey Bay (CSUMB) will submit delinquent account balances to the FTB for tax offset using the SAM timetable.

DELINQUENT PAYROLL ACCOUNTS RECEIVABLE

Collection activity on past-due payroll accounts receivable was not always timely or adequately documented. This is a repeat finding from the prior FISMA audit.

Our review of ten payroll accounts receivables dated from January 2006 to September 2007 disclosed that:

- ▶ In three instances, there was no evidence of collection activity until June 2007 and January 2008 for overpayments that occurred in January and April 2005, and July 2007, respectively. For the January 2005 overpayment, there was also no correspondence or evidence of collection activity

or payment after August 2007, and correspondence or evidence of resolution of the April 2005 overpayment such as submittal of the receivable to the FTB for tax offset or other collection action was also not in file.

- ▶ The chancellor's office intervened with one overpayment dispute, which originated in April 2005; however, the campus could not provide correspondence or communication with the chancellor's office after December 2006. There was also no documentation of resolution of the overpayment by the campus.

SAM §8776.6 and §8776.7 provide collection procedures to be employed in the collection of amounts due from third parties and employees, including a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

The payroll manager stated that deficient collection activity was a result of staff turnover.

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

Recommendation 3

We recommend that the campus:

- a. Strengthen procedures to ensure that payroll accounts receivable collections are timely and adequately documented.
- b. Revise collection procedures to adequately address the collection process after three collection letters are sent and other collection efforts have been exhausted, including documentation of procedures for tax offset.

Campus Response

We concur. The payroll manager has implemented internal controls to facilitate timely collection and adequate documentation of payroll accounts receivable. CSUMB will submit delinquent account balances to a collection agency and the FTB for tax offset using the SAM timetable.

WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS

The campus did not seek discharge of accountability from the State Controller's Office (SCO) for those accounts over \$1,000, which had been deemed uncollectible.

Our review of the listing of accounts written-off from January 2006 to September 2007 disclosed that the campus had locally written-off several account balances over \$1,000 without obtaining relief from accountability from the SCO or another authorizing body. We noted that amounts written-off included accounts receivables for payroll (\$27,152), travel and salary accounts (\$220,522), student accounts receivables (\$240,850), and non-specific miscellaneous accounts receivables (\$697,652), for which there was no supporting documentation.

Executive Order (EO) 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts as outlined in SAM §8776.6, which includes collection procedures that assure prompt follow-up on receivables. Authority is also delegated 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.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including specific requirements for filing applications for discharge from accountability with the SCO. If all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectible amounts due from private entities. Departments will file an Application for Discharge from Accountability Form, STD. 27, with the SCO, Division of Collections.

The director of accounting stated that the adjustments were made under the assumption that the balances were invalid and the lack of available supporting documentation precluded the preparation of the discharge of accountability form.

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

Recommendation 4

We recommend that the campus:

- a. Contact the chancellor's office or the SCO with requests to write-off uncollectible accounts greater than \$1,000 that are related to California State University (CSU) fund categories or operations within the CSU trust funds or state appropriated funds, respectively.
- b. Ensure that allowances for uncollectible accounts receivable are supported by sufficient documentation.

Campus Response

We concur. Procedures will be written to ensure that future uncollectible accounts are written-off in accordance with CSU and SAM policies and procedures. Pending formalization of the procedure, no uncollectible accounts greater than \$1,000 will be written-off. Implementation and training on these procedures will occur by July 31, 2008.

PURCHASING

Campus procurement card policies and procedures were not always enforced to ensure the timely submission of procurement card reconciliations.

Our review of 20 procurement card statements for ten employees for the months of June 2007 and September 2007 disclosed that 16 monthly statement reconciliations were forwarded to accounts payable between 3 and 32 days after the payment due date established by the procurement card administrator.

CSUMB *Accounting Policies and Procedures* and *Procurement Card Program Handbook* state, in part, that at the close of each monthly billing cycle, each cardholder will receive an individual statement of account. The cardholder reviews the statement for accuracy and reconciles the bank statement with the Monthly Credit Card Procurement Purchase Report and vendor receipts/invoices. They must submit their reconciliation signed by their administrator by the date given in the e-mail from the ProCard administrator.

EO 760, *Procurement Cards*, dated October 16, 2000, states in part that the processing of credit card payments must include a complete review and analysis of the monthly credit card charges. In support of the review, the campus departments should be required to submit complete supporting documentation in a timely manner.

The director of BSS stated that the lack of adherence to existing and published enforcement guidelines is due to inadequate procedural protocols for implementing and enacting enforcement measures.

Untimely reconciliations could lead to inappropriate charges made on the procurement cards and misuse of state resources.

Recommendation 5

We recommend that the campus strengthen enforcement of its procurement card policy to ensure timely submission of procurement card reconciliations.

Campus Response

We concur. We are now tracking all late submissions and will take requisite action, up to and including inactivating procurement cards from excessively late or repeat offenders.

OPERATING FUND

Salary and travel advances were not always timely recovered and documentation of collection activities and appropriate follow-up needed improvement. This is a repeat finding from the prior FISMA audit.

We found that three of ten salary and travel advances issued between January 2006 and September 2007 were outstanding between 145 and 186 days, and 68 and 124 days, respectively.

SUAM §3813 indicates that salary advances to employees should be collected when a corrected or delayed warrant for the pay period involved is received, with the time period for recovery of salary advances not to exceed 60 days.

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, and utilization of the offset claim procedures for accounts greater than \$10.

SAM §8116.2 requires the submittal of a properly prepared travel expense claim to substantiate travel expenses as soon as possible after the trip or at least once a month.

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

CSU directive HR 2005-49, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated December 16, 2005, states, in part, that the travel expense claim must be submitted within a reasonable period of time not to exceed 60 days.

The payroll manager stated that when employees did not repay advances within 60 days as required by SUAM, employee direct deposits were not cancelled for collection purposes.

Insufficient control over travel and salary advances increases the risk that revolving fund monies may not be available or be expended for inappropriate purposes and reduces the likelihood of collection.

Recommendation 6

We recommend that the campus implement procedures to ensure that travel and salary advances are timely recovered and documentation of collection activities and appropriate follow-up is maintained.

Campus Response

We concur. The payroll manager has developed procedures to ensure timely recovery of pay advances. The payroll manager anticipates implementing the procedures by August 1, 2008. Procedures for travel advances will be modified to ensure appropriate documentation of collection activities and follow-up is maintained. These procedures will be finalized by August 1, 2008.

PAYROLL AND PERSONNEL

EMPLOYEE ELIGIBILITY VERIFICATION

Federal Form I-9, Employment Eligibility Verification, was not always timely completed.

Our review of ten new hire transactions disclosed that:

- ▶ In two instances, Form I-9 was not completed within the required three days. The completion dates ranged from 7 to 12 days.
- ▶ In one instance, Form I-9 was on file since August 2005 and was not signed by the employee.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and non-citizens are required to complete Form I-9, Employment Eligibility Verification, at the time of hire, which is the actual beginning of employment. The act requires employers to examine evidence of identity and employment eligibility within three business days of the date employment begins.

The payroll manager stated that new hire follow-up procedures were inadequate to ensure that employees complete the required Form I-9 as instructed.

Form I-9s not completed within 72 hours increase the campus' risk of non-compliance with federal law.

Recommendation 7

We recommend that the campus strengthen procedures to ensure timely completion of Form I-9.

Campus Response

We concur. The payroll manager recently conducted training for the CSC and payroll staff regarding the employment eligibility verification process, emphasizing the need to ensure that each I-9 form contains all the required signatures. Such training will be conducted on a regular basis. In addition, the payroll office will send written reminders at the beginning of each semester to all departments to remind their new employees to complete the I-9 form within 72 hours of their start date as required by law.

EMPLOYEE SEPARATION

Employee separation procedures did not always ensure that clearance checklists were completed in a timely manner. This is a repeat finding from the prior FISMA audit.

Our review of ten separations from January 2006 to September 2007 disclosed that separation clearance checklists were not completed for six separated employees. The completion time ranged from 117 to 715 days.

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

The director of human resources operations stated that clearance checklists were not finalized in a timely manner due to staff turnover and inadequate follow-up of outstanding items by responsible personnel.

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

Recommendation 8

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

Campus Response

We concur. Enforcement of the clearance process is very challenging, as we are not permitted to hold final warrants pending satisfactory completion of the clearance process. Additional internal controls will be implemented to ensure complete and timely completion of clearance documentation. Next semester the campus will disseminate the clearance procedures via a campus-wide e-mail outlining the responsibilities assigned to both the employee and manager upon termination. This announcement will be sent every semester in November and April.

UNDELIVERED SALARY WARRANTS

Undelivered salary warrants were not properly controlled and remitted to the SCO for final escheatment. This is a repeat finding from the prior FISMA audit.

Our review of undelivered salary warrants maintained in the safe at the CSC disclosed that:

- ▶ The CSC lacked written records of undelivered salary warrants.

- ▶ Warrants not delivered to employees within five days of receipt were not returned to the CSC for disposition.
- ▶ Procedures were not in place to deposit and remit undelivered warrants greater than 90 days to the SCO escheat account.

SAM §8580.5 requires that salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll office. Warrants not delivered within 90 calendar days of receipt must be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund.

The director of human resources operations stated that due to turnover, the CSC staff was unaware of the SAM requirement.

Untimely remittance of undelivered warrants increases the risk of misappropriated funds.

Recommendation 9

We recommend that the campus develop and implement procedures to ensure that undelivered salary warrants are properly handled and remitted to the SCO when required.

Campus Response

We concur. The campus will strengthen enforcement of existing procedures to ensure compliance with SAM. The payroll manager will conduct monthly CSC visits to check for undelivered salary warrants and regular training of the CSC staff will be conducted to ensure responsible parties understand the procedures. Additionally, the CSC will send monthly reminders asking warrant representatives to return undelivered warrants to the CSC within five days of pickup as required by SAM. Salary warrants that cannot be delivered on a timely basis will be remitted to the SCO in accordance with SAM requirements. All items relating to this recommendation will be implemented by September 2008.

FIXED ASSETS

PROPERTY ADMINISTRATION

Property acquisitions were not always properly controlled or recorded accurately or timely into the accounting records.

Our review of ten property purchases/acquisitions and 22 deletions/disposals between January 2006 and September 2007 disclosed that:

- ▶ In two instances, property could not be located, including one asset that was inventoried in June 2007.
- ▶ In one instance, the property was missing its tag and in two instances, property was delivered to the department by the vendor without being tagged, capitalized, or added to the fixed assets listing.
- ▶ In five instances, the property was recorded to the general ledger for incorrect amounts ranging from undercapitalization of \$683.55 to overcapitalization of \$8,082.41.
- ▶ In two instances, property that was still in use was removed from the campus fixed assets listing and a property survey form could not be located for one disposition.
- ▶ In two instances, the location of the property was incorrectly recorded in the fixed assets listing.
- ▶ In two instances, property was not removed from the accounting records within 90 days of the survey report.

We also noted that the campus experienced property losses and/or thefts of \$45,428 as of September 30, 2007, which represents an increase of approximately \$30,000 in this area since the prior FISMA audit period.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

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

SAM §8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report Form, STD. 152. The department will adjust its property accounting records.

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

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.

The director of BSS stated that departmental personnel throughout the campus were unfamiliar with existing campus guidelines concerning property and asset management.

Inadequate 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:

- a. Strengthen procedures to ensure that property is appropriately controlled and tagged, correctly capitalized, and accurately recorded to (or removed from) the appropriate general ledger account and fixed assets listing.
- b. Prepare property survey reports for all dispositions.
- c. Train employees in campus policies governing property and asset management.

Campus Response

We concur. The implementation of the fixed assets module in PeopleSoft Common Management Systems is now complete. This implementation entailed reviewing, strengthening, and detailing the business processes for correctly and accurately managing and reporting property, including added reconciliation activities and appropriate verification of property survey reports for all dispositions. Property staff will schedule property and asset management training to campus staff. Documentation supporting achievement will be submitted not later than September 2008.

HOME USE PERMITS

CSUMB loan agreement forms were not always completed and approved for off-campus use of university laptops and/or portable devices.

Our review of ten laptops and/or portable devices used by campus personnel disclosed that the campus did not have loan agreement forms on file for eight of these items that were used off-campus.

CSUMB Property Department Policy and Procedures, dated August 17, 2007, states that loans of university equipment to employees must have prior approval. All loaned equipment shall be listed on a property loan agreement form and filed in the property department.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate

accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

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.

The director of BSS stated that departmental personnel throughout the campus were unfamiliar with existing campus guidelines concerning property and asset management.

Failure to use loan agreement forms increases the risk of unauthorized use and loss of state property.

Recommendation 11

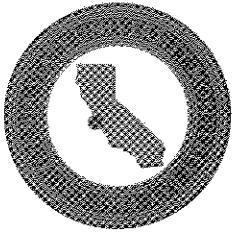
We recommend that the campus implement the use of loan agreement forms for off-campus use of university equipment.

Campus Response

We concur. The property services and information technology (IT) departments will revise and renew the authorization process for off-campus use of university laptops and/or portable devices. Loans of non-IT equipment will be documented using loan agreement forms completed, approved, and maintained by department staff. The property services department will schedule training sessions to reacquaint the campus with property management requirements. Documentation supporting achievement will be submitted not later than September 2008.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Dianne F. Harrison	President
Richard Arredondo	Property Clerk, Business and Support Services (BSS)
George Ball	Property Coordinator, BSS
Jennifer Benallal	Accounts Payable Technician III
Reyola Carlisle	Contracts Coordinator, BSS
Cory Castaneda	Accounts Payable Technician III
Catherine Castillo	Administrative Support Assistant II, Budget Office
Arthur Evjen	Director, BSS
John Fitzgibbon	Associate Vice President, Finance
Christine Frederick	Cashiering and Student Accounting Services Manager, Accounting
Gretchen Fuentes	Director of Human Resources Operations, University Human Resources
Nicole Grundowski	Travel Coordinator, Accounting
John Paul Jones	Financial Services Analyst, Extended Education (EE)
James Main	Vice President, Administration and Finance
Yessica Moncada	Payroll Technician, University Human Resources
William Musselman	Director of Accounting
Linda Novotny	Administrative Support Coordinator, Accounting
Abe Pedroza	General Ledger Accountant
Leticia Pena	Payroll Technician, University Human Resources
Catherine Rank	Director of Budget and Planning, University Budget Office
Eva Salas	Buyer, Contracts and Procurement, BSS
Wesley Scheibly	Payroll Manager, University Human Resources
Karen Sellick	Program Coordinator/Analyst, EE
Terry Simon	Lead Customer Service Specialist, Campus Services Center (CSC)
Joyce Stine	Administrative Analyst/Specialist, Administration and Finance
Daniel Tedone	Tax and Reporting Manager
Toni Uribe	Lead Customer Service Specialist, CSC
Ann Van Straten	Assistant Buyer, BSS
Linda Wight	Associate Vice President, University Human Resources
Barbara Michele Zollna	General Accounting Manager, Administration and Finance



CALIFORNIA STATE UNIVERSITY
Monterey Bay

OFFICE OF THE VICE PRESIDENT
FOR ADMINISTRATION AND FINANCE

APPENDIX B - Page 1 of 6

100 CAMPUS CENTER, BUILDING 84D

SEASIDE, CA 93955-8001

831.582.3398

FAX 831.582.4430

www.csUMB.edu

June 9, 2008

University Auditor Mandel
California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Subject: FISMA Audit #07-06

Dear Larry:

Attached is the hard copy of CSU Monterey Bay's responses to the recommendations regarding the subject audit. Electronic copy has already been transmitted to your attention.

Please contact John Fitzgibbon if you have any questions or comments.

Sincerely,

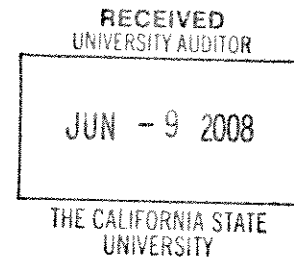


for J. Main

James E. Main
VP for Administration and Finance

Attachment

cc: University Auditor Schlack
AVP Wight
AVP Fitzgibbon
Director Musselman



FISMA

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

Audit Report 07-06

CASH RECEIPTS

Recommendation 1

We recommend that the campus ensure that:

- a. Duties and responsibilities related to cashiering and the deposit of cash receipts are properly segregated at all satellite cashier locations.
- b. Checks and/or credit card payments collected are endorsed on the day of receipt and are transported when necessary to the campus in a secured envelope or other container, which ensures that deposits are safeguarded.
- c. An inventory control system for press-numbered receipts that includes all satellite cashier locations is implemented and that copies are retained for audit purposes.

Campus Response

We concur. Corrective action has already occurred. Reassignment of duties to properly segregate activities has occurred, payments are properly endorsed and safeguarded and an inventory of press numbered receipts is maintained.

ACCOUNTS RECEIVABLE

DELINQUENT EMPLOYEE ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus:

- a. Implement procedures to ensure timely collection activities are properly documented and collection correspondence is retained on file.
- b. Submit delinquent account balances to the FTB for tax offset.

Campus Response

We concur. The Payroll Manager has implemented internal controls to facilitate timely recovery and retention of collection correspondence. CSUMB will submit delinquent account balances to the FTB for tax offset using the State Administrative Manual timetable.

DELINQUENT PAYROLL ACCOUNTS RECEIVABLE

Recommendation 3

We recommend that the campus:

- a. Strengthen procedures to ensure that payroll accounts receivable collections are timely and adequately documented.
- b. Revise collection procedures to adequately address the collection process after three collection letters are sent and other collection efforts have been exhausted, including documentation of procedures for tax offset.

Campus Response

We concur. The Payroll Manager has implemented internal controls to facilitate timely collection and adequate documentation of payroll accounts receivable. CSUMB will submit delinquent account balances to a collection agency and the FTB for tax offset using the State Administrative Manual timetable.

WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS

Recommendation 4

We recommend that the campus:

- a. Contact the chancellor's office or the SCO with requests to write-off uncollectible accounts greater than \$1,000 that are related to California State University (CSU) fund categories or operations within the CSU trust funds or state appropriated funds, respectively.
- b. Ensure that allowances for uncollectible accounts receivable are supported by sufficient documentation.

Campus Response

We concur. Procedures will be written to ensure that future uncollectible accounts are written off in accordance with CSU and State Administrative Manual policies and procedures. Pending formalization of the procedure, no uncollectible accounts greater than \$1,000 will be written-off. Implementation and training on these procedures will occur by July 31, 2008.

PURCHASING

Recommendation 5

We recommend that the campus strengthen enforcement of its procurement card policy to ensure timely submission of procurement card reconciliations.

Campus response

We concur. We are now tracking all late submissions and will take requisite action, up to and including inactivating procurement cards from excessively late or repeat offenders.

OPERATING FUND

Recommendation 6

We recommend that the campus implement procedures to ensure that travel and salary advances are timely recovered and documentation of collection activities and appropriate follow-up is maintained.

Campus Response

We concur. The Payroll Manager has developed procedures to ensure timely recovery of pay advances. The Payroll Manager anticipates implementing the procedures by August 1, 2008. Procedures for travel advances will be modified to ensure appropriate documentation of collection activities and follow-up is maintained. These procedures will be finalized by August 1, 2008

PAYROLL AND PERSONNEL

EMPLOYEE ELIGIBILITY VERIFICATION

Recommendation 7

We recommend that the campus strengthen procedures to ensure timely completion of Form I-9.

Campus Response

We concur. The Payroll Manager recently conducted training for the Campus Service Center (CSC) and Payroll staff regarding the employment eligibility verification process, emphasizing the need to ensure that each I-9 form contains all the required signatures. Such training will be conducted on a regular basis. In addition, the Payroll Office will send written reminders at beginning of each semester to all departments to remind their new employees to complete the I-9 form within 72 hours of their start date as required by law.

EMPLOYEE SEPARATION

Recommendation 8

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

Campus Response

We concur. Enforcement of the clearance process is very challenging as we are not permitted to hold final warrants pending satisfactory completion of the clearance process. Additional internal controls will be implemented to ensure complete and timely completion of clearance documentation.

Next semester the campus will disseminate the clearance procedures via a campus-wide email outlining the responsibilities assigned to both the employee and manager upon termination. This announcement will be sent every semester in November and April.

UNDELIVERED SALARY WARRANTS

Recommendation 9

We recommend that the campus develop and implement procedures to ensure that undelivered salary warrants are properly handled and remitted to the SCO when required.

Campus Response

We concur. The campus will strengthen enforcement of existing procedures to ensure compliance with SAM. The Payroll Manager will conduct monthly CSC visits to check for undelivered salary warrants and regular training of the CSC staff will be conducted to ensure responsible parties understand the procedures. Additionally, the CSC will send monthly reminders asking warrant representatives to return undelivered warrants to the CSC within five days of pick-up as required by SAM. Salary warrants that cannot be delivered on a timely basis will be remitted to the SCO in accordance with SAM requirements. All items relating to this recommendation will be implemented by September, 2008.

FIXED ASSETS

PROPERTY ADMINISTRATION

Recommendation 10

We recommend that the campus:

- a. Strengthen procedures to ensure that property is appropriately controlled and tagged, correctly capitalized, and accurately recorded to (or removed from) the appropriate general ledger account and fixed assets listing.
- b. Prepare property survey reports for all dispositions.

- c. Train employees in campus policies governing property and asset management.

Campus Response

We concur. The implementation of the Fixed Asset module in PeopleSoft CMS is now complete. This implementation entailed reviewing, strengthening and detailing the business processes for correctly and accurately managing and reporting property, including added reconciliation activities and appropriate verification of property survey reports for all dispositions. Property staff will schedule property and asset management training to campus staff. Documentation supporting achievement will be submitted not later than September 2008.

HOME USE PERMITS

Recommendation 11

We recommend that the campus implement the use of loan agreement forms for off-campus use of university equipment.

Campus Response

We concur. The Property Services and Information Technology (IT) departments will revise and renew the authorization process for off-campus use of university laptops and/or portable devices. Loans of non-IT equipment will be documented using loan agreement forms completed, approved and maintained by department staff. The Property Services Department will schedule training sessions to reacquaint the campus with property management requirements. Documentation supporting achievement will be submitted not later than September 2008.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 18, 2008

CHANNEL ISLANDS

CHICO

MEMORANDUM

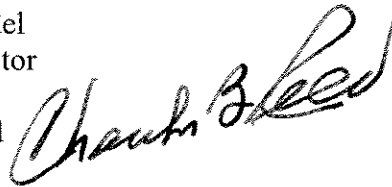
DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 07-06 on *FISMA*,
California State University, Monterey Bay

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of June 18, 2008, I accept the response as submitted with the draft final report on *FISMA*, California State University, Monterey Bay.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Dianne F. Harrison, President
Mr. James Main, Vice President, Administration and Finance

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS