

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

**Audit Report 07-07
September 11, 2007**

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ABBREVIATIONS

CEL	College of Extended Learning
CSU	California State University
CSUSB	California State University, San Bernardino
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
GC	Government Code
IEP	International Extension Programs
SAM	State Administrative Manual
SCO	State Controller's Office

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, San Bernardino (CSUSB) 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 CSUSB campus from April 30, 2007, through June 21, 2007, and made a study and evaluation of the accounting and administrative control in effect as of June 21, 2007. 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, CSUSB's accounting and administrative control in effect as of June 21, 2007, 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 the College of Extended Learning (CEL). The CEL did not issue receipts to students who made cash payments in person, an inventory control system was not maintained over press-numbered receipts issued for payment of off-campus conferences, and checks received by the international extension programs (IEP) office were not always restrictively endorsed on the day received. The IEP office had five unendorsed checks on hand at the time of review.

PAYROLL AND PERSONNEL [7]

Undelivered salary warrants were not properly controlled and timely remitted to the State Controller's Office (SCO) for final escheatment. There was no evidence that salary warrants not delivered within five days were returned to the office that distributed the warrants, 203 undelivered salary warrants dated between June 8, 1999, and April 10, 2007, were on hand as of May 3, 2007, and current campus practice was to hold salary warrants until they were automatically deemed stale by the SCO and to remit the funds at that time.

RECONCILIATIONS [8]

Certain campus reconciliations were not always timely prepared or complete. Bank reconciliations for December 2006, January 2007, and February 2007 were prepared 67, 83, and 63 days after month end, respectively. This is a repeat finding from the last FISMA audit. Operating fund reconciliations for January 2007 and February 2007 were prepared 69 and 41 days after month end, respectively. This is a repeat finding from the last FISMA audit. Surplus money investment fund reconciliations for February 2007 and March 2007 were prepared 54 and 46 days after month end, respectively; and the March 2007 reconciliation was not dated by the reviewer.

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.

INTRODUCTION

- ▶ 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 2005/06 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 February 28, 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.

We have not performed any auditing procedures beyond June 21, 2007. 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 the College of Extended Learning (CEL).

We found that:

- ▶ CEL did not issue receipts to students who made cash payments in person.
- ▶ An inventory control system was not maintained over press-numbered receipts issued for payment of off-campus conferences.
- ▶ Checks received by the international extension programs (IEP) office were not always restrictively endorsed on the day received. During our visit to the IEP office on May 25, 2007, we found five checks on hand that had not been restrictively endorsed. One of the checks was dated May 7, 2007; however, we were unable to determine the date that the checks were actually received.

State Administrative Manual (SAM) §8020 states that state agencies will prepare receipts for all collections, unless specifically exempted in writing by the Department of Finance, Fiscal Systems and Consulting Unit, of coin or currency received in person from payers who are not given press-numbered documents of fixed value (such as guest meal tickets) at the time of payment and all collections from payers who request receipts. All receipts, except transfer receipts, will be press-numbered. An inventory control will be kept for press-numbered receipts.

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

The CEL manager of financial services stated that the current receipting system did not facilitate issuing receipts and the omission of formal inventory control for press-numbered receipts used for off-campus conferences was an oversight of the conference services department. He further stated that not restrictively endorsing the checks was an oversight of the IEP office manager.

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

Recommendation 1

We recommend that the campus:

- a. Issue receipts to CEL students who make cash payments in person.
- b. Implement an inventory control system for press-numbered receipts issued for off-campus conferences.

- c. Ensure that all checks received by CEL are restrictively endorsed by the end of the day.

Campus Response

The campus concurs with the recommendation. Procedures will be established and implemented to strengthen cash controls and receipting processes in the CEL.

Completion date: November 30, 2007

PAYROLL AND PERSONNEL

Undelivered salary warrants were not properly controlled and timely remitted to the State Controller's Office (SCO) for final escheatment.

Our review of undelivered salary warrants as of May 3, 2007, disclosed that:

- ▶ There was no evidence that salary warrants not delivered within five days were returned to the office that distributed the warrants.
- ▶ Warrants on hand more than 90 days were not deposited and remitted to the SCO. There were 203 salary warrants dated between June 8, 1999, and April 10, 2007, that were on hand as of May 3, 2007.
- ▶ The current campus practice was to hold salary warrants until they were automatically deemed stale by the SCO and to remit the funds at that time.

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 accounting stated that campus practice had always been to hold salary warrants until the campus received the stale check listing from the SCO.

Untimely remittance of undeliverable salary warrants increases the risk of misappropriated funds.

Recommendation 2

We recommend that the campus revise its procedures to ensure that undelivered salary warrants are properly handled and timely remitted to the SCO.

Campus Response

The campus concurs with the recommendation. Procedures will be developed and implemented to strengthen control of undelivered salary warrants. Due to a statewide injunction imposed by the SCO, warrants to be escheated will be held until further notice.

Completion date: November 30, 2007

RECONCILIATIONS

Certain campus reconciliations were not always timely prepared or complete.

During our review of reconciliations in May 2007, we noted that:

- ▶ Bank reconciliations were not always timely prepared. Bank reconciliations for December 2006, January 2007, and February 2007 were prepared 67, 83, and 63 days after month end, respectively. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.
- ▶ Operating fund reconciliations were not always timely prepared. Operating fund reconciliations for January 2007 and February 2007 were not completed until April 10, 2007, 69 and 41 days after month end, respectively. This is a repeat finding from the prior FISMA audit.
- ▶ Investment reconciliations were not always timely prepared or dated by the reviewer. Surplus money investment fund reconciliations for February 2007 and March 2007 were prepared 54 and 46 days after month end, respectively; and the March 2007 reconciliation was not dated by the reviewer.

SAM §7901 requires that all reconciliations be prepared monthly within 30 days of the preceding month.

SAM §8000 requires that all bank and centralized State Treasury System accounts will be reconciled promptly at the end of each month.

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

The director of accounting stated that the bank reconciliations were not timely completed due to understaffing in the bursar's office and the implementation of the new Wells Fargo depository and disbursement accounts along with the PeopleSoft Student Finance module that required creation, customization, and extensive testing of bank reconciliation business processes, reports, and queries. She further stated that due to the Revenue Management Program, the operating fund was closed in November 2006, and analysis of these accounts required customization and testing of a new open

item report on PeopleSoft resulting in late operating fund reconciliations. She added that the delay in investment reconciliations was due to the recent retirement of the associate director, and the reconciliation was not dated by the reviewer due to oversight.

Failure to timely or properly complete operating fund, bank, and investment reconciliations limits the campus' ability to detect errors and irregularities and compromises accountability.

Recommendation 3

We recommend that the campus strengthen procedures to ensure that reconciliations are properly completed in a timely manner.

Campus Response

The campus concurs with the recommendation. Procedures for ensuring timely processing of reconciliations will be strengthened, and the revised processes will be communicated to applicable staff.

Completion date: November 30, 2007

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Albert K. Karnig	President
Karen Abbey	Property Manager, Property Management
Elsa Alvarez	Payroll Technician, Payroll
Deletta Anderson	Associate Director, Accounting
Mimi Badulis	GAAP Accountant, General Accounting
Claudia Campos	Administrative Analyst, Bursar
Twillea Carthen	Manager, Human Resources Programs and Employment
Rebecca Christopher	Employment Analyst, Human Resources
Aminia Clark	Assistant to Vice President, Information Resources and Technology
Pegeen Davison	Administrative Analyst Specialist, Payroll
David DeMauro	Vice President, Administration and Finance
Shirley Dorsey	Manager, Payroll
Mark Erickson	Manager, Financial Services, College of Extended Learning (CEL)
Matias Farre	Manager, General Accounting
Lorraine Frost	Interim Vice President, Information Resources and Technology
Randy Hanlin	Associate Director, Housing and Residential Life
Kathy Hansen	Director, Procurement and Support Services
Lillian Hernandez	Manager, Employee Benefits
Rosa Jimenez	Accounting Technician, General Accounting
Shannon Kelley	Manager, Accounts Payable
Ruth Landeros	Office Manager, Housing and Residential Life
Davina Lindsey	Accountant, General Accounting
Marilyn Lymuel	Supervisor, Bursar
Maria Najera-Neri	Accountant, General Accounting
Linda Pella-Hartley	Executive Assistant, Office of the Vice President of Administration and Finance
Karen Prill	Accounting Technician, General Accounting
Sheryl Pytlak	Director, Accounting
Anita Schnars	Manager, Training and Development
Renee Smith	Payroll Technician, Payroll
William Takehara	Associate Vice President, Financial Operations
Josh Thomas	Information Services Coordinator, Parking Services
Monica Villarruel	Administrative Support Assistant, Accounting
Dale West	Director, Human Resources
Mary Woody	Accounting Technician, Accounts Payable
Joyce Woolsey	Office Manager, CEL, International Extension Programs

State of California

California State University, San Bernardino
5500 University Parkway
San Bernardino, California 92407-2397

MEMORANDUM

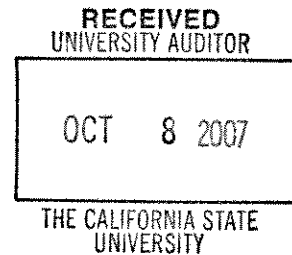
DATE : October 5, 2007

TO : Larry Mandel
University Auditor
The California State University



FROM : David DeMauro, Vice President
for Administration and Finance

SUBJECT: **Campus Responses**
FISMA Audit Report No. 07-07
California State University, San Bernardino



As requested in your letter dated September 12, 2007, enclosed are the campus responses to recommendations of Audit Report Number 07-07, *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 my office at 909-537-5130.

c: Albert K. Karnig, President
Deletta Anderson, Interim Director, Accounting Services
Louis Fernández, Provost/Vice President for Academic Affairs
Jeet Joshee, Dean, College of Extended Learning
William Takehara, AVP for Financial Operations

Enclosure

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

**Audit Report 07-07
September 11, 2007**

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Issue receipts to CEL students who make cash payments in person.
- b. Implement an inventory control system for press-numbered receipts issued for off-campus conferences.
- c. Ensure that all checks received by CEL are restrictively endorsed by the end of the day.

Campus Response

The campus concurs with the recommendations. Procedures will be established and implemented to strengthen cash controls and receipting processes in the College of Extended Learning.

Completion date: November 30, 2007

PAYROLL AND PERSONNEL

Recommendation 2

We recommend that the campus revise its procedures to ensure that undelivered salary warrants are properly handled and timely remitted to the SCO.

Campus Response

The campus concurs with the recommendation. Procedures will be developed and implemented to strengthen control of undeliverable salary warrants. Due to a statewide injunction imposed by the State Controller's Office, warrants to be escheated will be held until further notice.

Completion date: November 30, 2007

RECONCILIATIONS

Recommendation 3

We recommend that the campus strengthen procedures to ensure that reconciliations are properly completed in a timely manner.

Campus Response

The campus concurs with the recommendation. Procedures for ensuring timely processing of reconciliations will be strengthened, and the revised processes will be communicated to applicable staff.

Completion date: November 30, 2007

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

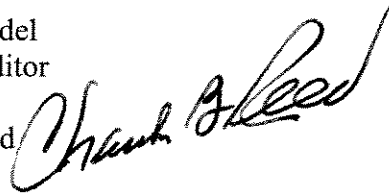


- BAKERSFIELD
- CHANNEL ISLANDS
- CHICO
- DOMINGUEZ HILLS
- EAST BAY
- FRESNO
- FULLERTON
- HUMBOLDT
- LONG BEACH
- LOS ANGELES
- MARITIME ACADEMY
- MONTEREY BAY
- NORTHRIDGE
- POMONA
- SACRAMENTO
- SAN BERNARDINO
- SAN DIEGO
- SAN FRANCISCO
- SAN JOSÉ
- SAN LUIS OBISPO
- SAN MARCOS
- SONOMA
- STANISLAUS

October 19, 2007

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Charles B. Reed 
Chancellor

SUBJECT: Draft Final Report 07-07 on *FISMA*,
California State University, San Bernardino

In response to your memorandum of October 19, 2007, I accept the response as submitted with the draft final report on *FISMA*, California State University, San Bernardino.

CBR/jt

Enclosure

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