

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN MARCOS**

**Audit Report 08-05
August 14, 2008**

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ABBREVIATIONS

CSU	California State University
CSUSM	California State University, San Marcos
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
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, San Marcos (CSUSM) 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 CSUSM campus from May 5, 2008, through June 20, 2008, and made a study and evaluation of the accounting and administrative control in effect as of June 20, 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, CSUSM's accounting and administrative control in effect as of June 20, 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 [6]

Quarterly application fee reconciliations for fiscal year 2006/07, the first two quarters for fiscal year 2007/08, and the state university fee reconciliations for the summer 2006 and spring 2007 semesters were not prepared and/or approved within one month after the end of the academic term. The reconciliations were prepared between 36 and 178 days and 43 and 85 days, respectively after their due dates.

ACCOUNTS RECEIVABLE [7]

A review of third-party and external receivables as of January 31, 2008, disclosed that collection letters were not prepared timely for 9 of 14 receivables reviewed. The collection letters were sent between 51 and 573 days after the initial invoice date. This is a repeat finding from the prior FISMA audit.

PAYROLL [8]

Vacation leave accrual balances that exceeded the maximum allowable accruals as December 31, 2007, were without documented approval by the president as required by campus policy. A review of 23 employee year-end accrued vacation leave balances as of December 31, 2007, that required adjustment at January 1, 2008, disclosed that 10 out of 23 employees were allowed to carry forward vacation leave balances that exceeded their maximum allowable accrual by 8 to 152 hours.

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.

- ▶ 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 2006 to March 2008. 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.
- ▶ 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 20, 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

Application and state university fee reconciliations were not completed timely.

Our review disclosed that quarterly application fee reconciliations for fiscal year 2006/07, the first two quarters for fiscal year 2007/08, and the state university fee reconciliations for the summer 2006 and spring 2007 semesters were not prepared and/or approved within one month after the end of the academic term. The reconciliations were prepared between 36 and 178 days and 43 and 85 days, respectively after their due dates.

State University Administrative Manual (SUAM) §3825.01 states 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. The reconciliations should be completed one month after the end of the academic term being reconciled.

The director of accounting and technology services stated that the reconciliations were not completed in a timely manner due to staff turnover and leaves of absence.

Failure to complete timely fee reconciliations increases the risk that errors and irregularities will not be detected and compromises accountability.

Recommendation 1

We recommend that the campus prepare application and state university fee reconciliations in a timely and complete manner for each academic term.

Campus Response

We concur. Per the SUAM policy, the campus shall complete fee reconciliations within 30 days after the end of the semester.

Anticipated completion date: October 30, 2008

ACCOUNTS RECEIVABLE

The process for the pursuit of delinquent third-party and external account receivables needed improvement. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act audit.

Our review of third-party and external receivables as of January 31, 2008, disclosed that collection letters were not prepared timely for 9 of 14 receivables reviewed. The collection letters were sent between 51 and 573 days after the initial invoice date.

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.

State Administrative Manual §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 director of accounting and technology services stated that the oversight was due to issues with the PeopleSoft collections module, which failed to acknowledge certain accounts therefore, the campus did not immediately realize that the collection letters were not being sent.

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

Recommendation 2

We recommend that the campus correct the issues in the PeopleSoft collections module and establish and implement procedures to ensure the timely mailing of collection letters for delinquent accounts.

Campus Response

We concur. The campus shall send collection letters every 30 days for delinquent accounts as follows:

- First Notice – 31-60 days past due
- Second Notice – 61-90 days past due
- Third Notice – 91-120 days past due

Anticipated completion date: October 30, 2008

PAYROLL

Vacation leave accrual balances that exceeded the maximum allowable accruals as of December 31, 2007, were without documented approval by the president as required by campus policy.

Our review of 23 employee year-end accrued vacation leave balances as of December 31, 2007, that required adjustment at January 1, 2008, disclosed that ten employees were allowed to carry forward vacation leave balances that exceeded their maximum allowable accrual without documented approval. Specifically:

- ▶ Eight of ten management employees had vacation leave balances 8 to 152 hours greater than the maximum allowable amount. The leave balances were allowed to extend through the first quarter without documented presidential approval.
- ▶ Two of 13 non-management employees had vacation leave balances 10 and 12 hours greater than the maximum allowable amount.

California Faculty Association Collective Bargaining Agreement Article 34.6 states that credits are cumulative to a maximum of 320 working hours for ten or less years of qualifying service or 440 working hours for more than ten years of such service. Accumulations in excess of this amount as of January 1 of each year shall be forfeited by the faculty unit employee.

Section 42909, Article 4, Subchapter 7, Division 5 of Title 5 of the California Code of Regulations states as follows:

(a) An employee may accumulate credit for vacation with pay for which vacation is not taken during the calendar year. On January 1st of any calendar year, an employee covered by Section 42902 shall not have a credit for vacation with pay of more than 384 hours; an employee covered by Section 42904 shall not have a credit of more than 272 working hours for ten or less years of qualifying service or 384 working hours for more than ten years of such service; a Management Personnel Plan employee shall not have a credit of more than 384 working hours for ten or less years of qualifying service or 440 working hours for more than ten years of such service; and a campus president, general counsel, vice chancellor, or chancellor shall not have a credit of more than 480 hours.

(b) Notwithstanding subsection (a) to the contrary, the president of a campus at which an employee is employed, or the chancellor in the case of all other employees, may permit an employee to carry over more vacation credits than the prescribed maximum when the employee was prevented from taking enough vacation to reduce the credits because the employee (1) was required to work as a result of fire, flood, or other similar emergency, (2) was prevented from taking vacation by work the president or the chancellor, as the case may be, has determined to be of a priority or critical nature over an extended period of time, (3) was absent on full salary for compensable injury, or (4) was prevented by campus rule from taking vacation until December and at that time was unable to take vacation because of illness requiring use of sick leave.

The director of payroll services stated that payroll inadvertently missed the requirement of appointing power authorization for vacation carryover through the first quarter of the new year, and that a report that identified excess leave credits was run too early which did not provide accurate data for the entire year.

Unadjusted accrued vacation may overcompensate employees and expose the campus to increased liability.

Recommendation 3

We recommend that the campus establish procedures to ensure proper approval of excessive leave balance carryovers by the campus president or her designee.

Campus Response

We concur. The campus shall develop a written internal procedure to ensure payroll services receives proper approval of excessive leave balance carryovers by the campus president or designee.

Anticipated completion date: October 30, 2008

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Karen S. Haynes	President
Tina Bell	Director, Advancement Operations, University Advancement
Jim Carr	Materials Management Lead
Rosa Castro	Library Assistant, Access Services
Jane Cross	Director, Payroll Services
Diana Cumming	Accountant, Accounting and Technology Services
Kelly Fox	Cashier
Belinda Garcia	Assistant Director, Parking and Transportation Services
Linda Hawk	Vice President, Finance and Administrative Services
Becky Henwood	Accounts Payable Lead
Mary Hinchman	Associate Vice President, Business and Financial Services
Karla Ingolt	Administrative Support Assistant
Natalie Jorgensen	Learner Services Associate
Teresa Macklin	Information Security Officer
Charlene Molvano	Administrative Support Assistant
Bella Newberg	Director, Procurement and Support Services
Katy Rees	Director, Strategic Planning
Miranda Reveles	Health Records Technician
Karen Risley	Trust Fund Accountant
Melissa Rosales	Customer Service Representative, Parking and Transportation Services
Joanne Shydian	Associate Vice President, Human Resources
Nancy Suarez	Manager, Student Financial Services
Mary Villalobos	Cashier
Daniel Zorn	Director, Accounting and Technology Services



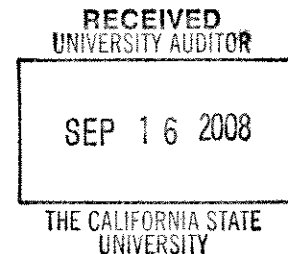
Office of the Vice President, Finance and Administrative Services

Linda Hawk
Vice President

California State University San Marcos
San Marcos, California 92096-0001 USA
Tel: 760 750-4950; Fax: 760 750-4949
lhawk@csusm.edu
www.csusm.edu

September 16, 2008

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802




Subject: Campus Response to Audit Report 08-05
California State University San Marcos FISMA Audit

Dear Mr. Mandel:

Enclosed is our campus response to the three recommendations in Audit Report 08-05, FISMA. We anticipate sending our supporting evidence by October 30, 2008.

Please let us know if you have any questions or need additional information.

Sincerely,


Linda Hawk
Vice President
Finance and Administrative Services

Enclosures

cc: President Karen S. Haynes
Mary Hinchman, Associate Vice President, Business and Financial Services
Joanne Shyidian, Associate Vice President, Human Resources and Risk Management

The California State University

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FISMA
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS

Audit Report 08-05

CASH RECEIPTS

Recommendation 1

We recommend that the campus prepare application and state university fee reconciliations in a timely and complete manner for each academic term.

Campus Response

We concur. Per the SUAM policy, the campus shall complete fee reconciliations within 30 days after the end of the semester.

Anticipated Completion Date: October 30, 2008

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus correct the issues in the PeopleSoft collections module and establish and implement procedures to ensure the timely mailing of collection letters for delinquent accounts.

Campus Response

We concur. The campus shall send collection letters every 30 days for delinquent accounts as follows:

- First Notice – 31-60 days past due
- Second Notice – 61-90 days past due
- Third Notice – 91-120 days past due

Anticipated Completion Date: October 30, 2008

PAYROLL

Recommendation 3

We recommend that the campus establish procedures to ensure proper approval of excessive leave balance carryovers by the campus president or her designee.

Campus Response

We concur. The campus shall develop a written internal procedure to ensure Payroll Services receives proper approval of excessive leave balance carryovers by the campus president or designee.

Anticipated Completion Date: October 30, 2008



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 3, 2008

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

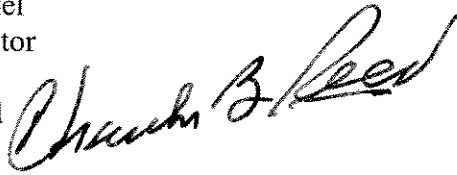
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

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

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 3, 2008, I accept the response as submitted with the draft final report on *FISMA*, California State University, San Marcos.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Ms. Linda Hawk, Vice President, Finance and Administrative Services
Dr. Karen S. Haynes, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS