

FISMA

CALIFORNIA MARITIME ACADEMY

Audit Report 08-12

July 28, 2009

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THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CMA	California Maritime Academy
CSU	California State University
DPRM	Director of Procurement and Risk Management
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
SAM	State 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 Maritime Academy (CMA) 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 CMA campus from February 16, 2009, through March 20, 2009, and made a study and evaluation of the accounting and administrative control in effect as of March 20, 2009. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, purchasing, and property. One of the six findings was also noted in the prior FISMA audit. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, CMA's accounting and administrative control in effect as of March 20, 2009, 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 two of the four satellite cashiering areas visited.

ACCOUNTS RECEIVABLE [7]

Pursuit and write-off of delinquent student and third-party receivables required improvement.

PURCHASING [8]

Duties and responsibilities related to the purchasing and procurement card functions were not properly segregated. Procurement card procedures were not always adequately enforced. This is a repeat finding from the prior FISMA audit.

PROPERTY [10]

The campus did not have documented procedures for performing physical inventories nor was an inventory performed since 2004. Property survey reports were not properly completed for the disposition of property.

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 have 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 objectives were to assess the adequacy of the systems of internal accounting and administrative control and to determine whether financial operations were conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor. Specifically, we sought assurances that:

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, systems output, or accounting entries are reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

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 2007/08 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 2008 to February 2009. Our primary focus was on internal controls.

A preliminary survey of the campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the campus. Our assessment of risk was based upon a systematic process using management's feedback and professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- ▶ 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.
- ▶ Authorization and proper classification 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, physical inventories, and authorization of property disposals.
- ▶ Access restrictions to accounting systems.
- ▶ Establishment of trust funds, separate accounting, and adequate agreements.

We have not performed any auditing procedures beyond March 20, 2009. 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 four satellite cashiering areas visited.

The satellite cashiering locations reviewed included main cashiering, extended education, admissions, and the Associated Student Body.

Extended Education

- ▶ Cash was not adequately safeguarded. During business hours, cash receipts were kept in a locked security bag; however, the bag was not stored in a secure location such as a locked drawer or file cabinet.
- ▶ The office safe was easily movable and located in the direct sight of outward facing windows.

Admissions

Receipts were transferred to the main cashier in a plain envelope.

State Administrative Manual (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 §8025 states that as a deterrent to burglary, a safe will be securely anchored to the building and, where practical, to the building's foundation.

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 California Maritime Academy (CMA) *Cash Receipts Process* states that deposits delivered from other locations on the campus are transported in a locked cash bag to the main cashier's office.

The controller stated that the weaknesses were due to oversight.

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

Recommendation 1

We recommend that the campus:

- a. Reiterate cash-handling procedures to extended education and admissions staff to ensure that cash receipts are stored in a secure location and transferred to the main cashier in locked bags, respectively.
- b. Secure the office safe in extended education.

Campus Response

We concur. We will reiterate cash-handling procedures to staff and ensure that cash receipts are stored in a secure location and transferred to the main cashier in locked bags. We will also properly locate and secure the extended education office safe. These items shall be completed by December 1, 2009.

ACCOUNTS RECEIVABLE

Pursuit and write-off of delinquent student and third-party receivables required improvement.

We found that:

- ▶ Collection letters were not sent in 30-day intervals for two of ten student receivables that were greater than 646 days past due per the October 2008 aging report. Six of the items were also not written off, including two that received a discharge from accountability from the State Controller's Office.
- ▶ Collection letters were not sent for three of ten third-party receivables that were greater than 160 days past due per the November 2008 aging report.

SAM §8776.6 requires that each department develop collection procedures that will ensure prompt follow-up on receivables. Further, the accounting office will send a sequence of three collection letters at 30-day intervals; if the collection letters are unsuccessful, a cost/benefit analysis of the collection actions should be prepared with additional collection efforts to include contracting with a collection agency. If all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectable amounts due from private entities. Departments will review their accounts receivable no less than quarterly to identify receivables for discharge.

The *CMA Procedures for A/R Adjustment and Write-downs* states that an account deemed uncollectible should be written off. If the account is greater than \$1,000, account information is sent to the State Board of Control for permission to write off.

The accounting manager stated that although the campus sought relief for accountability for long-outstanding debt, the accounts were not written off of the books in order to continue collection efforts.

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

Recommendation 2

We recommend that the campus:

- a. Send a sequence of three collection letters at 30-day intervals for student and third-party receivables.
- b. Ensure compliance with existing procedures for the handling and write-off of long-outstanding student and third-party receivables.

Campus Response

We concur. We will reiterate our policy to send three collection letters at 30-day intervals for student and third-party receivables and ensure compliance for handling the write-off of student and third-party receivables. These items shall be complete by December 1, 2009.

PURCHASING

SEGREGATION OF DUTIES

Duties and responsibilities related to the purchasing and procurement card functions were not properly segregated.

We found that the director of procurement and risk management (DPRM) had full access to all functions within both the procurement card system and the purchase order system (with the exception of vendor creation/modification). The DPRM also had responsibility for issuing and auditing procurement cards, as well as adjusting the maximum transaction and monthly limits for the cards.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

The controller stated that the segregation of duties weaknesses was due to limited staff resources and that various mitigating procedures had been implemented to reduce the risk of misstatement or inappropriate acts. He also stated that the procurement officer's supervisor has been reviewing the maximum transaction and monthly limits as well as exceptions to policy compliance. The controller

further indicated that he reviews the credit card payment statement activity prior to vendor payment to identify “risky” transactions and notifies the DPRM to include those individuals and situations in the monthly audit sample, and acknowledged that the segregation of duties issue can be improved upon.

Inadequate segregation of duties related to purchasing and procurement card activities increases the risk of misstated assets and loss from inappropriate acts.

Recommendation 3

We recommend that the campus implement appropriate segregation of duties related to the purchasing and procurement card functions or implement mitigating controls.

Campus Response

We concur. We will implement appropriate segregation of duties, or employ mitigating controls, over the purchasing and the procurement card functions by January 1, 2010.

PROCUREMENT CARDS

Procurement card procedures were not always adequately enforced. This is a repeat finding from the prior Financial Integrity and State Manager’s Accountability Act (FISMA) audit.

Our review of 13 procurement card reconciliations for seven cardholders, including the DPRM, for the months of November 2007 through December 2008, disclosed that:

- ▶ In four instances, prohibited items of food, furniture, and chemicals totaling \$18,735 were purchased.
- ▶ In three instances, itemized supporting receipts were not provided for purchases totaling \$1,636.
- ▶ In one instance, there was no supervisory review of a \$75 purchase.

The *CMA Procurement Handbook*, dated October 2007, states in part, that authorized cardholders must submit a monthly log of transactions including supporting documentation. Approving officials must review the logs and ensure purchases are appropriate, that no prohibited items have been purchased, any restricted charges are appropriately justified, and that appropriate documentation is attached to the monthly statement. Prohibited items include food items, personal purchases of any kind, chemicals, and office decorations. Restricted items include furniture. Exceptions may be made in special circumstances, but only with prior written approval and/or justification.

The DPRM stated that the purchase of prohibited items, the lack of itemized receipts, and the absence of supervisory review were due to oversight of the users and/or approving officials.

Insufficient control over procurement cards increases the risk of loss from inappropriate acts.

Recommendation 4

We recommend that the campus strengthen enforcement of its procurement card policy.

Campus Response

We concur. We will strengthen enforcement of our procurement card policy by January 1, 2010.

PROPERTY

INVENTORY

The campus did not have documented procedures for performing physical inventories nor was an inventory performed since 2004.

SAM §8652 requires a physical count of all property and a reconciliation of the count to accounting records at least once every three years.

SAM §20050 states that each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts.

Executive Order 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal control to safeguard statement property.

The controller stated that the campus does not have a property clerk and an inventory was not completed due to time and budget constraints.

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

Recommendation 5

We recommend that the campus:

- a. Document procedures for performing physical inventories.
- b. Take immediate action to perform a physical inventory of all university property and reconcile the physical inventory to the accounting records.

Campus Response

We concur. We will document procedures for performing physical inventories and perform a physical inventory of all university property. We will also perform reconciliation of the physical inventory to the accounting records. These items will be completed by February 1, 2010.

DISPOSITION

Property survey reports were not properly completed for the disposition of property.

Our review of seven items that were included on the disposed asset listing as of June 30, 2008, disclosed that none of the property survey reports included the original or depreciated value of the assets or a certification of disposition.

SAM 3520.9 states that when an agency disposes of state-owned surplus personal property by means other than the sale of the property (i.e., salvaged, scrapped, discarded, or hauled to landfill), the agency's responsible employee and unit supervisor shall certify in writing that the disposition has been accomplished. The certification may be made on the Property Survey Report form, STD. 152, or attached and filed with the form.

SAM §8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report form, STD. 152, and adjust their property accounting records.

The *CMA Survey Board Procedure* states that the State of California Standard Form 152 documents the original value of state property, current (i.e., appreciated or depreciated) value, agency identification number(s), method of disposal, and signatures of the agency authorized personnel completing the form as well as disposing the property.

The controller stated that this was an oversight.

Insufficient control over property dispositions increases the risk of inappropriate activities and reduces accountability over state property.

Recommendation 6

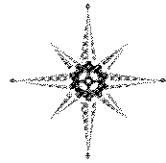
We recommend that the campus complete property survey reports as required by campus policy, including a certification of property disposition.

Campus Response

We concur. The campus will complete property survey reports as required by campus policy including a proper certification of the property disposition. This shall be completed by February 1, 2010.

APPENDIX A: PERSONNEL CONTACTED

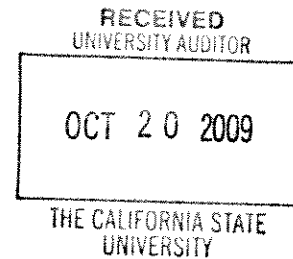
<u>Name</u>	<u>Title</u>
William B. Eisenhardt	President
Josie Alexander	Dean, Associate Student Body
Kathy Arnold	Program Assistant, Extended Education
Donna Carreon	Payroll Technician I
Patricia Cofran	Accounts Payable Lead
Kris Cranford	Administrative Assistant, Associated Student Body
Vineeta Dhillon	Director, Procurement and Risk Management
LaTanya Edington	Accounts Receivable Technician III
Stephen Frazier	Chief Information Officer
Susan Foft	Accounting Manager
Gay Kvilhaug	Accountant II and Student Financials Administrator
Marc McGee	Director of Admissions
Mark Nickerson	Vice President, Administration and Finance
Carl Phillips	Library Director
Jelayn Sansone	Accounting Technician II
Cheri Sims	Payroll Coordinator
Kathy Theobald	Main Cashier
Kenneth Toet	Controller



CAL MARITIME

Vice President for Administration and Finance

November 4, 2009



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

RE: Responses to CMA FISMA Audit Report 08-12

Dear Mr. Mandel,

Enclosed are our responses to Recommendations 1 through 6 from the CMA FISMA Audit 08-12.

If there is further information that we can provide, please contact me.

Sincerely,

Mark Nickerson
Vice President for Administration and Finance

cc: William B. Eisenhardt, President
Ken Toet, Controller
File

MN:ss

THE CALIFORNIA MARITIME ACADEMY

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FISMA
CALIFORNIA MARITIME ACADEMY
Audit Report 08-12

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Reiterate cash-handling procedures to extended education and admissions staff to ensure that cash receipts are stored in a secure location and transferred to the main cashier in locked bags, respectively.
- b. Secure the office safe in extended education.

Campus Response

We concur. We will reiterate cash-handling procedures to staff and ensure that cash receipts are stored in a secure location and transferred to the main cashier in locked bags. We will also properly locate and secure the extended education office safe. These items shall be completed by December 1, 2009.

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus:

- a. Send a sequence of three collection letters at 30-day intervals for student and third-party receivables.
- b. Ensure compliance with existing procedures for the handling and write-off of long-outstanding student and third-party receivables.

Campus Response

We concur. We will reiterate our policy to send three collection letters at 30-day intervals for student and third-party receivables and ensure compliance for handling the write-off of student and third-party receivables. These items shall be complete by December 1, 2009.

PURCHASING

SEGREGATION OF DUTIES

Recommendation 3

We recommend that the campus implement appropriate segregation of duties related to the purchasing and procurement card functions or implement mitigating controls.

Campus Response

We concur. We will implement appropriate segregation of duties, or employ mitigating controls, over the purchasing and the procurement card functions by January 1, 2010.

PROCUREMENT CARDS

Recommendation 4 (Repeat Finding)

We recommend that the campus strengthen enforcement of its procurement card policy.

Campus Response

We concur. We will strengthen enforcement of our procurement card policy by January 1, 2010.

PROPERTY

INVENTORY

Recommendation 5

We recommend that the campus:

- a. Document procedures for performing physical inventories.
- b. Take immediate action to perform a physical inventory of all university property and reconcile the physical inventory to the accounting records.

Campus Response

We concur. We will document procedures for performing physical inventories and perform a physical inventory of all university property. We will also perform reconciliation of the physical inventory to the accounting records. These items will be completed by February 1, 2010.

DISPOSITION

Recommendation 6

We recommend that the campus complete property survey reports as required by campus policy, including a certification of property disposition.

Campus Response

We concur. The campus will complete property survey reports as required by campus policy including a proper certification of the property disposition. This shall be completed by February 1, 2010.



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 9, 2009

CHANNEL ISLANDS

CHICO

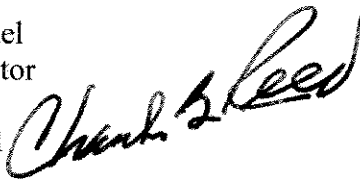
MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed 
Chancellor

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 08-12 on *FISMA*,
California Maritime Academy

LONG BEACH

LOS ANGELES

In response to your memorandum of November 9, 2009, I accept the response as submitted with the draft final report on *FISMA*, California Maritime Academy.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS