

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

**Audit Report 09-08
September 9, 2009**

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ABBREVIATIONS

CEL	College of Extended Learning
CFO	Chief Financial Officer
CSU	California State University
CSUSB	California State University San Bernardino
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
Foundation	Foundation for California State University, San Bernardino
GAAP	Generally Accepted Accounting Principles
GC	Government Code
NRA	Non-Resident Alien
OTC	Over-the-Counter
PS	PeopleSoft
SAM	State Administrative Manual
SCO	State Controller's Office
SHC	Student Health Center
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 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 March 23, 2009, through April 24, 2009, and made a study and evaluation of the accounting and administrative control in effect as of April 24, 2009. 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 April 24, 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 all three satellite cashiering areas visited. The satellite cashiering locations reviewed included College of Extended Learning, parking services, and the student health center. Application and state university fee reconciliations for the five quarters reviewed between fall 2007 and fall 2008 were neither consistently prepared nor approved in a timely manner. New student fees and changes to existing fees were not always approved.

ACCOUNTS RECEIVABLE [12]

The campus had not established policies and procedures relating to the collection of receivables from the Foundation for the California State University, San Bernardino; and collection efforts were inconsistent, untimely, and not documented. The campus had not written off any student, third-party, or employee accounts receivable since the last Financial Integrity State Manager's Accountability Act (FISMA) audit. Further, the campus did not resolve differences noted during the reconciliation of student and third-party accounts receivable in a timely manner. In addition, the campus' cost allocation plan was incomplete, and the campus did not invoice all auxiliary organizations for facilities, goods, and services in a timely manner.

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 March 23, 2009, to April 24, 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.
- ▶ Administration and reconciliation of bank accounts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Adequate segregation of duties regarding authorization and payment of cash disbursements and appropriate controls over campus vendors.
- ▶ Authorization and proper classification of personnel/payroll transactions.
- ▶ Monthly reconciliation of the property to the general ledger.
- ▶ Establishment of trust funds, separate accounting, and adequate agreements.

We have not performed any auditing procedures beyond April 24, 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

SATELLITE CASHIERING

Cash control weaknesses were found at all three satellite cashiering areas visited.

The satellite cashiering locations reviewed included the College of Extended Learning (CEL), parking services, and the student health center (SHC). We found the following:

College of Extended Learning

Payments received by school districts throughout California for optional credit in-service courses (professional development for teachers) were not adequately safeguarded prior to their remittance to the CEL for deposit. Instructors and/or service coordinators on the various campuses collected the payments, which were made with checks and credit cards. In some instances, the campuses held these payments overnight before forwarding them to the CEL office via US mail. By the time the CEL received the payments, the checks were often several days old and many had not been restrictively endorsed.

Parking Services

- ▶ Deposits at parking services were not always reconciled or deposited in a timely manner. The area's safe contained several days of deposits that had not been reconciled or prepared for pick-up by the campus courier service.
- ▶ Policies and procedures at parking services did not limit system access for the issuance of refunds. We found that in addition to the cashiering supervisor and the accounting technician, all six student cashiers had the ability to process refunds.
- ▶ Reconciliations of parking permits inventory to cash receipts were prepared quarterly instead of monthly.
- ▶ The employee responsible for opening incoming mail did not prepare a prelisting of checks received that either were not payable to the university, had been erroneously addressed, or were intended for a different department.

Student Health Center

- ▶ The SHC had no mechanism in place to provide duplicate receipts. Although the cashiering system printed copies of the original receipts, these copies did not indicate that they were duplicates of the originals.

- ▶ Daily receipts at the pharmacy were not verified or deposited in a timely manner to the SHC drop safe. We found that the pharmacy had funds from several days stored in a file cabinet because the cash drawer had become too full.
- ▶ Administration of over-the-counter (OTC) medication sales was deficient. We found that a proper segregation of duties was not maintained over OTC medication sales because the pharmacist sold, ordered, received, and maintained OTC medications. Further, a perpetual inventory of OTC medications was not maintained, and the pharmacy did not utilize the Medicat cashiering system (used by the SHC), which has the capability to track specific items sold. The pharmacy's cash register only counted the number of items sold and provided no detail of individual items, which allows under-ringing sales and prevents accountability over inventory sold.

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 §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications. It further requires that all reconciliations will be prepared monthly within 30 days of the preceding month.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency will be prelisted by the person opening the mail to localize accountability of these assets.

SAM §8020 states that the word "DUPLICATE" and a cross-reference to the originally issued receipt will be noted on all duplicate receipts.

California State University, San Bernardino (CSUSB) *Bursar Office Policies and Procedures* states that when collections either reach \$250 in cash or \$10,000 in all forms of payment, or have been held for 10 days, they must be deposited immediately to the bursar's office and that the use of a security escort is encouraged when delivering deposits to central cashiering.

CSUSB *Cash Control Student Health Center – Pharmacy Procedures* state that daily collected funds are to be verified by non-pharmacy staff and placed in the drop safe for the custodian to execute the weekly deposit.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization as well as recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director of accounting stated that the CEL was unaware that cash-handling controls extended to cash collections by third parties on the university's behalf. She further stated that the cash control weaknesses found at the parking services and SHC satellite cashiering locations were due to non-compliance with established campus policy.

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

Recommendation 1

We recommend that the campus:

- a. Develop a process to enable in-service students to pay the university online or send checks directly to the CEL office.
- b. Require that agency training coordinators facilitate collection of registration paperwork for submission to the CEL in lieu of instructors and or service coordinators.
- c. Ensure that parking services reconciles and deposits its cash receipts in a timely manner.
- d. Revise the parking services policy to limit the access for processing refunds in the cashiering system.
- e. Prepare monthly reconciliations of parking permits issued to revenue recorded in the general ledger.
- f. Establish procedures for parking services to prepare a prelisting of checks received that are not payable to the university.
- g. Establish a process for the SHC to issue duplicate receipts that include the word "DUPLICATE" and a cross-reference to the original.
- h. Ensure that all currency and checks received by the pharmacy are timely verified and deposited and adequately safeguarded in a secured storage facility prior to deposit with the bursar.
- i. Establish a proper segregation of duties over OTC medication sales in the pharmacy; implement a perpetual inventory system for OTC medications, including periodic physical counts of pharmacy inventory, reconciliation to inventory records, and identification and resolution of variances; and install the Medicat cashiering system.

Campus Response

The campus concurs with the recommendations.

- a. Registration procedures have been changed to require individual students who choose to take optional credit in-service courses and programs to register directly with the CEL using

postage-paid, addressed envelopes to the CEL. In addition, a system is now in place to allow for on-line registrations using PayPal.

- b. Coordinators and instructors of in-service courses have been advised of the changes in procedures with a revision of the instructions for coordinators and instructors as well as a personalized letter to each coordinator that explains the changes and reasons for the change in procedures. Registration forms have been re-printed with new registration information. Upon course approval, new registration packets were sent to coordinators that contain revised instructions for coordinators and instructors, new registration packets for students that contain a sheet of registration instructions for students, a revised registration form and a postage-paid return envelope to return the completed registration form and payment directly to the CEL. Coordinators and instructors have been advised that we can no longer accept registrations and payments via course coordinators and instructors.
- c. Since March 23, 2009, deposits have been prepared and verified within 24 to 48 business hours. In March, parking services requested that the courier make daily trips to parking services. The accounting department is re-working their Request for Proposal (RFP) to allow for the courier to make daily trips to parking so that the deposits can be made in a timely manner.
- d. The policies and procedure manual was updated on May 1, 2009, to address refund procedures and authority level to issue refunds. The policy states, "Access to refund processing in the T2 system is limited to the Accounting Technician, Financial Operations Supervisor, Assistant Director, and the Director of Parking Services."
- e. The accounting technician conducts a weekly reconciliation of parking permit inventory to cash receipts. This procedure has been in operation since April 10, 2009. A detailed explanation of the process is outlined in our policy manual (Section VI under "Daily Funds and Permit Inventory Reconciliation Procedures") and is as follows: run the permit audit report on T2 for the specific permit type, download the report onto an Excel worksheet, determine the number of unsold permits according to the T2 report, reconcile this figure to the actual physical inventory in the custody of individual cashiers, investigate and determine accountability if there are discrepancies in which case the financial operations supervisor is to be notified and the incident is to be documented.

In addition, beginning in spring 2009, a process was established to reconcile T2 financial data to the general ledger, which is performed by the financial operations supervisor. This process is detailed in Section V under "Daily Funds and Permit Inventory Reconciliation Procedures." As a result of this process, every permit was accounted for during the spring quarter.

- f. The mail log was revised on April 10, 2009, to allow for all checks received to be accurately logged and tracked from the time we receive the check to the time it leaves our custody. The policies and procedure manual ("Mail Payment Procedure," page 14) was updated on May 1, 2009, to reflect the changes. It states, "All incoming mail receipts consisting of cash and negotiable instruments, not payable to the State agency, will be prelisted by the person opening the mail to localize accountability of these assets."

- g. The electronic medical records system (Medicat) will be programmed to print “DUPLICATE” on receipts generated. Enhancement cycles occur at approximately six-month intervals (April 2010). In the meantime, receipts will be hand-stamped “DUPLICATE” and a copy referenced to the daily reconciliation report (implemented September 21, 2009).
- h. Reconciliation occurs daily, independently verified by one of three designated employees (implemented June 15, 2009). A drop safe was purchased and pharmacy deposits are made daily (implemented March 15, 2009).
- i. The SHC will ensure there is separation of duties for sales of OTC medications to include separation of cashiering, reconciling, and depositing cash receipts. The SHC will implement a perpetual inventory system and reconciliation of sales to inventory records and cash deposited.

Completion Date for Recommendations 1c and 1i: December 11, 2009

FEE RECONCILIATIONS

Application and state university fee reconciliations for the five quarters reviewed between fall 2007 and fall 2008 were neither consistently prepared nor approved in a timely manner.

We found that:

- ▶ For the five quarters reviewed, one application fee reconciliation was not performed and four reconciliations were not performed within one month of the end of the academic term. The campus performed all four reconciliations in January 2009. As a result, the reconciliations were performed between 139 and 408 days late.
- ▶ For one of the five quarters we reviewed, the state university fee reconciliation was not performed within one month of the end of the academic term. The reconciliations for two quarters were not signed and dated by the reviewer.

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 within one month after the end of the academic term being reconciled.

SUAM §3825.02 states that each academic term, the campus shall prepare a reconciliation of state university fees to the number of students accounted on the census date according to the census date report. The reconciliation shall be maintained on file by each campus.

SAM §7901 indicates that the accuracy of accounting records may be proved partially by making certain reconciliations and verifications. It further requires that all reconciliations will be prepared monthly within 30 days of the preceding month.

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

The director of accounting stated that the application fee reconciliations were not prepared in a timely manner because of the staff's lack of familiarity with extracting information from the admissions database and the student financial module delayed the process. She further stated that during the review of the state university fee reconciliations for summer and fall 2008, the campus decided to change the methodology and responsibility for these reconciliations. She added that in the process of implementing this transition, the reviewer overlooked the requirement to sign and validate the originally prepared reconciliations.

Failure to reconcile fees in a timely and complete manner compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 2

We recommend that the campus reconcile application and state university fees within one month after the end of the academic term being reconciled and ensure that they are signed and dated by the reviewer.

Campus Response

The campus concurs with the recommendation. The procedures for both the application and state university fees reconciliations now include a requirement to reconcile within one month of the end of the academic term and identify the position responsible for approving within that same time frame.

Completion Date: December 11, 2009

STUDENT FEES

New student fees and changes to existing fees were not always approved.

We reviewed two new and ten increased fees as of the audit date. We found that in four instances, there was no evidence of the campus fee committee or president's approval for increased fees. In addition, we found no documentation of the fee committee or president's approval to establish student fees for one of the four increased fees reviewed.

Executive Order (EO) 1034, *California State University Student Fee Policy and Miscellaneous Course Fee Delegation of Authority*, dated June 26, 2008, states, in part, that the president is delegated authority for the establishment, oversight, and adjustment of Category IV and Category V fees and for the oversight and adjustment of Category II and III fees. The policy also states that the president is responsible for ensuring that appropriate and meaningful consultation occurs prior to adjusting any fee and that this consultation will include bodies such as the campus faculty senate, the campus student body association, and other constituencies affected by any proposed adjustment or

establishment of a fee. The policy states that the president will make a determination on Category IV and V fees after consideration of the revenue and expenditure plans associated with the fees and will then notify the fee advisory committee of his or her decision.

The director of accounting stated that new student fees and fee increases had not been properly authorized because established campus procedures had not been clearly communicated to academic departments, colleges, and other campus offices that request new fees or fee increases.

Failure to obtain proper authorization to establish, increase, or modify student fees increases the risk that students will be charged unauthorized fees and compromises campus accountability.

Recommendation 3

We recommend that the campus ensure that the establishment of student fees and changes to existing fees are always approved by either the fee committee or campus president.

Campus Response

The campus concurs with the recommendation. The fee policy was recently revised to reflect the new EO 1034. Additionally, there will need to be a written communication that outlines the procedures that need to be followed when Category IV or V fees are involved, as these are not required to go to the fee committee, but only need to be approved by the president. The new Category IV and V fees are being approved by the president but in a more informal manner such as at Administrative Council. In these cases, sometimes a formal document has not been created for him to sign. The campus will be preparing a written procedures guide that will be posted on the student accounts website and shared with the campus to attempt to create a better approval process for any new fees. In addition, student accounts will not process any fee increases in the PeopleSoft (PS) Student Finance system that have not been approved through the appropriate approval process.

Completion Date: December 11, 2009

ACCOUNTS RECEIVABLE

COLLECTIONS

Pursuit of delinquent third-party and employee receivables needed improvement.

We found that:

- ▶ The campus had not established policies and procedures relating to the collection of receivables from the Foundation for the California State University, San Bernardino (Foundation). As of April 2009, these receivables totaled \$30,696. We also noted that the campus had not maintained supporting collection documentation for these receivables.

- ▶ Campus collection efforts were inconsistent and untimely. We reviewed 11 employee receivables and found that in four instances, there was no documented collection activity. For 7 of the 11 receivables, written initial notification to the employees was not available.

CSUSB *Accounts Receivable Collection Process* states, in part, that any debt that is more than two years old and less than \$1,000 may be written off without further review once it has been closed and returned by two outside collection agencies.

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

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables. These procedures include sending a sequence of three collection letters at 30-day intervals with progressively stronger tones. The procedures also establish specific requirements for filing applications for discharge from accountability with the State Controller's Office (SCO).

SAM §8776.7 includes procedures to be employed in the collection of amounts due from employees. These procedures include notifying the employee of the receivable in writing and documenting any response by the employee, including his/her agreement to repay the state.

The director of accounting stated that the accounting department did not have established campus procedures for the collection of delinquent accounts receivable from the Foundation. She further stated that delinquent employee receivables were not adequately pursued due to non-compliance with established campus policy.

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 4

We recommend that the campus:

- a. Develop written collection procedures that specify the types of collection efforts to be performed for each type of receivable, including documentation of collection efforts and initial employee notification.
- b. Ensure that all third-party and employee receivables are promptly pursued through the use of consistent collection efforts, and take action to pursue collection of the delinquent receivables from the Foundation.

Campus Response

The campus concurs with the recommendation. Written collection procedures will be reviewed and strengthened for each of type of receivable, identifying the types of collection efforts to be performed, the order they are to be performed in, and the documentation procedure to be followed to demonstrate compliance.

Completion Date: December 11, 2009

WRITE-OFFS

The campus had not written off any student, third-party, or employee accounts receivable since the last Financial Integrity State Manager's Accountability Act (FISMA) audit.

EO 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts outlined in SAM §8776.6, which includes collection procedures that ensure prompt follow-up on receivables. EO 616 also delegates authority to the campus for local adjustments of up to \$1,000 when the campus determines that a receivable is uncollectible or that the amount does not justify the collection costs.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables. These procedures include sending a sequence of three collection letters at 30-day intervals with progressively stronger tones. The procedures also establish specific requirements for filing applications for discharge from accountability with the SCO.

The director of accounting stated that long-outstanding accounts receivable were not pursued for write-off due to non-compliance with established campus policy and procedures. She also stated that the staff responsible for student accounts receivable had problems accessing the write-off function in the PeopleSoft (PS) system.

Failure to write off long-outstanding accounts receivable increases the risk of misstatement of the campus' financial position.

Recommendation 5

We recommend that the campus analyze student, third-party, and employee accounts receivable to determine which receivables are uncollectible and that it write off the receivables as warranted.

Campus Response

The campus concurs with the recommendation. A review of student, third-party, and employee accounts receivable will be conducted and procedures established for regular biannual reviews during the fiscal year. An analysis will be prepared and all accounts receivables deemed uncollectible will be presented to the director of accounting for approval. Signature approvals depending on amount of

write-off will be obtained and then the account will be written off in the sub-ledger systems that then interface with the general ledger.

Completion Date: December 11, 2009

SUBSIDIARY RECONCILIATIONS

The campus did not resolve differences noted during the reconciliation of student and third-party accounts receivable in a timely manner.

We reviewed the monthly reconciliations of the accounts receivable subsidiary ledgers to the general ledger for the period from December 2008 to February 2009. Although the campus completed these reconciliations in the required time frames, we noted unreconciled differences that it had not resolved. Specifically, the reconciliations for December 2008, January 2009, and February 2009 were out of balance by (\$311,446), \$618,204, and \$852,104 respectively.

SAM §7901 requires that corrections to errors be made before financial reports are prepared to partially ensure the accuracy of an agency's financial reports. Properly prepared reconciliations also help to audit the agency's accounting records.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard the state's assets and ensure reliable financial data.

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 accounting stated that the campus had not resolved all differences it found in its monthly accounts receivable reconciliations because the implementation of PS Student Financials made it difficult to obtain and adequately research receivable data. She also stated that the setup of the chartfields used for some item types had caused the accounting entries to post to the wrong accounts.

Untimely resolution of reconciling differences limits the campus' ability to detect errors and irregularities.

Recommendation 6

We recommend that the campus promptly research and resolve the differences in its accounts receivable reconciliations.

Campus Response

The campus concurs with the recommendation. Since the implementation of PS Student Financials, further work has been done to better extract and analyze receivable data and personnel have developed more expertise on the module and reporting tables. Corrections to chartfields associated to item types have further reduced reconciliation items. Further emphasis will be given to clearing items promptly in that a copy of the signed reconciliation will be forwarded to the director of accounting.

Completion Date: December 11, 2009

COST ALLOCATION PLAN

The campus' cost allocation plan was incomplete, and the campus did not invoice all auxiliary organizations for facilities, goods, and services in a timely manner.

We found that:

- ▶ The campus did not document the method it used to distribute the costs of facilities, goods, and services.
- ▶ The campus did not consistently invoice all auxiliary organizations for reimbursement for facilities, goods, and services. In our review of three auxiliary organizations, we found that one auxiliary had not been invoiced for \$21,340 that it owed the campus.

EO 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus chief financial officer (CFO), or designee, shall annually approve and implement the cost allocation plan.

SAM §8776.2 states that an invoice or other type of claim document will be prepared and sent out as soon as possible after the recognition of a claim.

The director of accounting stated that the campus was unaware of the requirement to have an approved, documented methodology for distributing costs included in the campus' cost allocation plan. She also stated that the campus' inconsistent invoicing of cost recovery reimbursements was directly related to its lack of a documented methodology.

Failure to identify the method used to distribute the cost of facilities, goods, and services and invoice all auxiliary organizations increases the risk that the campus operating fund will not be fully compensated for the support it provides to auxiliary enterprises.

Recommendation 7

We recommend that the campus:

- a. Document the methodology it uses to distribute the costs of facilities, goods, and services; and ensure that this methodology is reviewed and approved by the campus CFO.
- b. Ensure that auxiliary organizations are invoiced for the costs of facilities, goods, and services in a timely manner.

Campus Response

The campus concurs with the recommendation. A newly created Allocation of Costs to Auxiliary Enterprises document has been created and will be approved by the vice president of administration and finance for the 2009/10 fiscal year before December 11th. All costs of facilities, goods, and services provided to Auxiliary Enterprises will be invoiced in a timely manner as required by the newly approved Allocation of Costs to Auxiliary Enterprises document.

Completion Date: December 11, 2009

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Albert K. Karnig	President
Karen Abbey	Property Manager
Lydia Acosta	Financial Services Assistant
Deletta Anderson	Director, Accounting
Maria Badulis	NRA/GAAP Accountant, General Accounting
Claudia Campos	Administrative Analyst, Bursar's Office
Laura Carrizales	Information Security Analyst
Rebecca Christopher	Manager, Employment and Retirement
Cherie Conan	Financial Services Assistant
Pegeen Davison	Administrative Analyst Specialist, Payroll
Kimberly Dawson	Office Manager
Shirley Dorsey	Manager, Payroll
Neal Farber	Pharmacist
Matias Farre	Manager, General Accounting
Robert Gardner	Vice President for Administration and Finance
Kathy Hansen	Director, Procurement and Support Services
Lisa Iannolo	Finance Manager
Shannon Kelley	Associate Director, Accounting
Davina Lindsey	Manager, Accounts Payable
Cindy Lopez	Accountant
Linda Ludvickson	Accounting Technician
Marilyn Lymuel	Supervisor, Bursar
Quentin Moses	Director, Parking Services
Margaret Mutadzakupa	NRA/GAAP Accountant, General Accounting
Rosa Santos	Accounting Technician, General Accounting
Patricia Smith	Director of Health and Counseling Center
Melissa Spagnuolo	Executive Assistant, Office of the Vice President of Administration and Finance
Beth Stanton	Purchasing Manager
Josh Thomas	Special Projects Coordinator, Parking Services
Sherry Toman	Manager, Students Accounts Office
Gayle Villavicencio	Office Manager
Dale West	Director, Human Resources
Deloren West	Special Projects Coordinator, Parking Services
Carla Williamson	Accountant
Robert Wilson	Associate Vice President of Financial Operations
Mary Woody	Accounting Technician, Accounts Payable

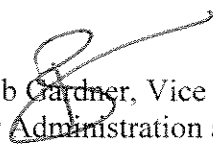
State of California

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

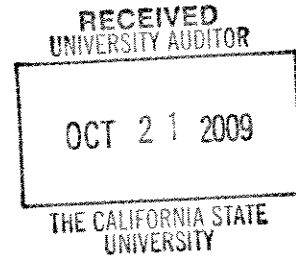
MEMORANDUM

DATE: October 20, 2009

TO: Larry Mandel
University Auditor
The California State University

FROM:  Bob Gardner, Vice President
for Administration and Finance

SUBJECT: **Campus Response to
FISMA Audit – Report No. 09-08
California State University, San Bernardino**



Enclosed is the campus response to CSUSB's *FISMA Audit – Report No. 09-08*.

Please contact me with any questions you may have. Thank you.

c: Al Karnig
Bob Wilson
Del Anderson

Enclosure

FISMA

CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Audit Report 09-08

CASH RECEIPTS

SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Develop a process to enable in-service students to pay the university online or send checks directly to the CEL office.
- b. Require that agency training coordinators facilitate collection of registration paperwork for submission to the CEL in lieu of instructors and or service coordinators.
- c. Ensure that parking services reconciles and deposits its cash receipts in a timely manner.
- d. Revise the parking services policy to limit the access for processing refunds in the cashiering system.
- e. Prepare monthly reconciliations of parking permits issued to revenue recorded in the general ledger.
- f. Establish procedures for parking services to prepare a prelisting of checks received that are not payable to the university.
- g. Establish a process for the SHC to issue duplicate receipts that include the word "DUPLICATE" and a cross-reference to the original.
- h. Ensure that all currency and checks received by the pharmacy are timely verified and deposited and adequately safeguarded in a secured storage facility prior to deposit with the bursar.
- i. Establish a proper segregation of duties over OTC medication sales in the pharmacy; implement a perpetual inventory system for OTC medications, including periodic physical counts of pharmacy inventory, reconciliation to inventory records, and identification and resolution of variances; and install the Medicat cashiering system.

Campus Response

1.
 - a. The campus concurs with the recommendation. Registration procedures have been changed, to require individual students who choose to take optional credit in-service courses and programs to register directly with the College of Extended Learning using postage-paid, addressed envelopes to CEL. In addition, a system is now in place to allow for on-line registrations using PayPal.
 - b. The campus concurs with the recommendation. Coordinators and instructors of in-service courses have been advised of the changes in procedures with a revision of the instructions for coordinators and instructors as well as a personalized letter to each coordinator that explains the changes and reasons for the change in procedures. Registration forms have been re-printed with new registration information. Upon course approval, new registration packets were sent to coordinators that contain revised instructions for coordinators and instructors, new registration packets for students that contain a sheet of registration instructions for students, a revised registration form and a postage-paid return envelope to return the completed registration form and payment directly to CEL. Coordinators and instructors have been advised that we can no longer accept registrations and payment via course coordinators and instructors.
 - c. The campus concurs with the recommendation. Since March 23, 2009, deposits have been prepared and verified within 24 to 48 business hours. In March, Parking Services requested that the courier make daily trips to Parking Services. The Accounting Department is re-working their RFP to allow for the courier to make daily trips to Parking so that the deposits can be made in a timely manner.
 - d. The campus concurs with the recommendation. The Policies and Procedure Manual was updated on May 1, 2009 to address refund procedures and authority level to issue refunds. The policy states, "Access to refund processing in the T2 system is limited to the Accounting Technician, Financial Operations Supervisor, Assistant Director, and the Director of Parking Services."
 - e. The campus concurs with the recommendation. The Accounting Technician conducts a weekly reconciliation of parking permit inventory to cash receipts. This procedure has been in operation since April 10, 2009. A detailed explanation of the process is outlined in our policy manual (section VI under "Daily Funds and Permit Inventory Reconciliation Procedures") and is as follows: run the permit audit report on T2 for the specific permit type, download the report onto an Excel worksheet, determine the number of unsold permits according to the T2 report, reconcile this figure to the actual physical inventory in the custody of individual cashier's, investigate and determine accountability if there are discrepancies in which case the Financial Operations Supervisor is to be notified and the incident is to be documented.

In addition, beginning in spring 2009 a process was established to reconcile T2 financial data to the general ledger which is performed by the Financial Operations Supervisor. This process is detailed in section V under "Daily Funds and Permit Inventory Reconciliation Procedures." As a result of this process, every permit was accounted for during the spring quarter.

- f. The campus concurs with the recommendation. The mail log was revised on April 10, 2009 to allow for all checks received to be accurately logged and tracked from the time we receive the check to the time it leaves our custody. The policies and procedure manual (section "Mail Payment Procedure," page 14) was updated on May 1, 2009 to reflect the changes. It states,

“All incoming mail receipts consisting of cash and negotiable instruments, not payable to the State agency, will be prelisted by the person opening the mail to localize accountability of these assets.”

- g. The campus concurs with the recommendation. The Electronic Medical Records System (Medicat) will be programmed to print “DUPLICATE” on receipts generated. Enhancement cycles occur at approximately six month intervals (April 2010). In the mean time, receipts will be hand stamped “DUPLICATE” and a copy referenced to the daily reconciliation report (implemented September 21, 2009).
- h. The campus concurs with the recommendation. Reconciliation occurs daily, independently verified by one of three designated employees (implemented June 15, 2009). A drop safe was purchased and pharmacy deposits are made daily (implemented March 15, 2009).
- i. The campus concurs with the recommendation. The Student Health Center will ensure there is separation of duties for sales of OTC medications to include separation of cashiering, reconciling, and depositing cash receipts. The Student Health Center will implement a perpetual inventory system and reconciliation of sales to inventory records and cash deposited.

Completion date for Recommendation 1c and 1i: December 11, 2009

FEE RECONCILIATIONS

Recommendation 2

We recommend that the campus reconcile application and state university fees within one month after the end of the academic term being reconciled and ensure that they are signed and dated by the reviewer.

Campus Response

The campus concurs with the recommendation. The procedures for both the application and state university fees reconciliations now include a requirement to reconcile within one month of the end of the academic term and identify the position responsible for approving within that same time frame.

Completion date: December 11, 2009

STUDENT FEES

Recommendation 3

We recommend that the campus ensure that the establishment of student fees and changes to existing fees are always approved by either the fee committee or campus president.

Campus Response

The campus concurs with the recommendation. The fee policy was recently revised to reflect the new Executive Order 1034. Additionally, there will need to be a written communication that outlines the procedures that need to be followed when category IV or V fees are involved as these are not required to go to the fee committee, but only need to be approved by the President. The new Category IV and

V fees are being approved by the President but in a more informal manner such as at Administrative Council. In these cases sometimes a formal document has not been created for him to sign. The campus will be preparing a written procedures guide that will be posted on the Student Accounts Website and shared with campus to attempt to create a better approval process for any new fees. In addition, Student Accounts will not process any fee increases in the PeopleSoft Student Finance system that have not been approved through the appropriate approval process.

Completion date: December 11, 2009

ACCOUNTS RECEIVABLE

COLLECTIONS

Recommendation 4

We recommend that the campus:

- a. Develop written collection procedures that specify the types of collection efforts to be performed for each type of receivable, including documentation of collection efforts and initial employee notification.
- b. Ensure that all third-party and employee receivables are promptly pursued through the use of consistent collection efforts, and take action to pursue collection of the delinquent receivables from the Foundation.

Campus Response

The campus concurs with the recommendation. Written collection procedures will be reviewed and strengthened for each of type of receivable, identifying the types of collection efforts to be performed, the order they are to be performed in, and the documentation procedure to be followed to demonstrate compliance.

Completion date: December 11, 2009

WRITE-OFFS

Recommendation 5

We recommend that the campus analyze student, third-party, and employee accounts receivable to determine which receivables are uncollectible and that it write off the receivables as warranted.

Campus Response

The campus concurs with the recommendation. A review of student, third-party, and employee accounts receivable will be conducted and procedures established for regular biannual reviews during the fiscal year. An analysis will be prepared and all accounts receivables deemed uncollectible will be presented to the Director of Accounting for approval. Signature approvals depending on amount

of write-off will be obtained and then the account will be written off in the sub-ledger systems that then interface with the General Ledger.

Completion date: December 11, 2009

SUBSIDIARY RECONCILIATIONS

Recommendation 6

We recommend that the campus promptly research and resolve the differences in its accounts receivable reconciliations.

Campus Response

The campus concurs with the recommendation. Since the implementation of PS Student Financials, further work has been done to better extract and analyze receivable data and personnel have developed more expertise on the module and reporting tables. Corrections to chart fields associated to items types have further reduced reconciliation items. Further emphasis will be given to clearing items promptly in that a copy of the signed reconciliation will be forwarded to the Director of Accounting.

Completion date: December 11, 2009

COST ALLOCATION PLAN

Recommendation 7

We recommend that the campus:

- a. Document the methodology it uses to distribute the costs of facilities, goods, and services; and ensure that this methodology is reviewed and approved by the campus CFO.
- b. Ensure that auxiliary organizations are invoiced for the costs of facilities, goods, and services in a timely manner.

Campus Response

The campus concurs with the recommendation. A newly created Allocation of Costs to Auxiliary Enterprises document has been created and will be approved by the Vice President of Administration and Finance for the 2009/10 fiscal year before December 11th. All costs of facilities, goods, and services provided to Auxiliary Enterprises will be invoiced in a timely manner as required by the newly approved Allocation of Costs to Auxiliary Enterprises document.

Completion date: December 11, 2009

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

November 13, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed". The signature is written in a cursive style and is positioned to the right of the typed name "Charles B. Reed".

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-08 on *FISMA*,
California State University, San Bernardino

LONG BEACH

LOS ANGELES

In response to your memorandum of November 13, 2009, I accept the response as submitted with the draft final report on *FISMA*, California State University, San Bernardino.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS