

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

Vlad Marinescu
Vice Chancellor and
Chief Audit Officer
562-951-4430
vmarinescu@calstate.edu

February 4, 2021

Dr. Robert S. Nelsen, President
California State University, Sacramento
6000 J Street
Sacramento, CA 95819

Dear Dr. Nelsen:

**Subject: Audit Report 20-49, Accounts Payable and Disbursements,
California State University, Sacramento**

We have completed an audit of *Accounts Payable and Disbursements* as part of our 2020-2021 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

There were no reportable observations revealed during the review. The final audit report will be posted to Audit and Advisory Services' website.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor
Adam Day, Chair, Committee on Audit
Jane W. Carney, Vice Chair, Committee on Audit

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**ACCOUNTS PAYABLE AND
DISBURSEMENTS**

California State University, Sacramento

Audit Report 20-49
February 1, 2021

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to accounts payable and disbursements and to ensure compliance with relevant federal and state regulations; Trustee policy; Office of the Chancellor (CO) directives; and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for accounts payable and disbursements as of October 16, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

There were no reportable observations revealed during the review.

GENERAL INFORMATION

BACKGROUND

Accounts payable and disbursement audits involve the assessment of operational, administrative, and financial controls surrounding the accounts payable process, from receipt of invoice to the disbursement of funds. Administration of accounts payable, which includes timely and accurate payments to internal and external parties, is typically the responsibility of financial services or the bursar's office in the administration and finance division. Duties include verifying payments are properly approved and authorized, ensuring payments are properly recorded, and monitoring for duplicate or erroneous payments to vendors.

The different types of payables at universities are employee, student, and third-party payables. Employee payables are generated from payroll or reimbursements for travel, hospitality, or approved business expenses. Student payables are generated from financial aid, student loans, and refunds. Third-party payables are generated from vendor invoices as a result of goods or services provided to the campus. Payment methods used by the campus can include paper checks, wire transfers, automated clearing house (ACH), and procurement cards. Additionally, the campus may have petty cash funds available for paying small allowable expenses.

The primary CSU policy governing accounts payable and disbursement activities are Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, Integrated California State University Administrative Manual (ICSUAM) §3103.01, *Disbursements – General*, and ICSUAM §3103.02, *Outgoing Disbursements*, all of which were updated in September 2020. EO 1000 delegates authority to each president to provide effective oversight of all state funds held by the campus and all funds held in a fiduciary capacity. ICSUAM §3103.01 requires that the campus chief financial officer (CFO), or his or her delegate, establish procedures detailing how and when funds can be disbursed and related documentation requirements. In addition, the chief financial officer (CFO) is responsible for establishing appropriate segregation of duties so that no one person can disburse funds independently. ICSUAM §3103.02 provides requirements related to direct deposit, wire transfer, and paper check payment methods.

At California State University, Sacramento (Sacramento State), the AP and travel department within the financial services division is responsible for AP activities and the oversight of travel and hospitality management activities and ensures compliance with systemwide and campus policies and procedures. The bursar's office within the financial services division is responsible for the actual disbursement of funds. The AP and travel department and the bursar's office are overseen by the associate vice president for financial services, who reports to the vice president of administration and business affairs.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from August 3, 2020, through October 16, 2020. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2018, to October 16, 2020.

Specifically, we reviewed and tested:

- Administration of university accounts payables and disbursements is well defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.
- Campus accounts payable and disbursements policies and procedures are current, comprehensive, and consistent with CSU policy.
- Processes to ensure that segregation of duties is adequate, accountability is maintained, and safeguarding is adequate for cash and cash equivalents.
- Disbursements are properly authorized, incurred for appropriate business purposes, adequately documented, and in compliance with CSU and campus policies and procedures, including campus program account disbursements.
- Travel and hospitality expenditures are properly authorized, incurred for appropriate business purposes, adequately documented, and in compliance with CSU and campus policies and procedures.
- Payments or reimbursements of travel and hospitality expenditures to non-campus employees such as prospective employees, independent contractors, consultants, official guests, volunteers, spouses, or domestic partner are appropriate and in compliance with CSU and campus policies and procedures.
- Reconciliations, monitoring, and review of disbursement transactions and escheatment of long-outstanding items are in compliance with CSU and state escheatment requirements.
- Access to systems used in disbursement administration.

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.

Our testing and methodology, which was designed to provide a review of key operational, administrative, and financial controls, included interviews and detailed testing on certain aspects of the accounts payable, travel, and hospitality expenditures. Our review was limited to gaining reasonable assurance that essential elements of the accounts payable, travel, and hospitality areas were in place, and we did not examine all aspects of the areas. In addition, we excluded payroll, and student financial aid disbursements from testing as they have specific requirements that are better suited for an audit of each individual area. Disbursements handled by auxiliaries that did not flow through the campus accounts payable department were also excluded.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus (and auxiliary, if applicable) procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Government Code 13402 and 13403, *State Leadership Accountability Act*
- Education Code 89753, *Expenditures and Control*
- EO 688, *Delegation of Authority – Approval of Travel Requests*
- EO 731, *Designation of Chief Financial Officer*
- EO 1000, *Delegation of Authority and Responsibility*
- EO 1031, *Systemwide Records/Information Retention and Disposition*
- EO 1041, *CSU Student Travel Policy*
- EO 1069, *Risk Management*
- ICSUAM §1301, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §3103.01, *Disbursements – General*
- ICSUAM §3103.02, *Outgoing Disbursements*
- ICSUAM §3601.01, *CSU Travel and Business Expense Reimbursement Policy*
- ICSUAM §8060.00, *Access Control*
- ICSUAM §8080.00, *Physical Security*
- ICSUAM §8100.00, *Electronic and Digital Signatures*
- *CSU Contracts and Procurement Policy*
- *CSU Auxiliary Sound Business Practices*
- Coded memorandum HR 2018-07, *Updated Moving and Relocation Policy and CSU Internal Procedures Governing Reimbursement for Moving and Relocation Expenses*
- Coded memorandum RM 2014-01, *International Travel Approval Process and Requirement to Purchase Insurance*
- *Sacramento State Hospitality Expenses*
- *Sacramento State Travel Policy*

AUDIT TEAM

Audit Manager: Jennifer Rethwisch
Senior Auditor: Laura Vazquez