FISMA

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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CONTENTS

INTRODUCTION

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

APPENDICES

ABBREVIATIONS

CSU	California State University
CSUN	California State University Northridge
EC	California Education Code
FISMA	Financial Integrity and State Manager’s Accountability Act
FY	Fiscal Year
IRS	Internal Revenue Service
IS	Information Systems
PPM	Physical Plant Management
RUFP	Resolution, University and Faculty Personnel Committee
SAM	State Administrative Manual
SCO	State Controller’s Office
SUAM	State University Administrative Manual
UC	University Corporation
UF	University Foundation

INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems to ensure that:

- cash receipts are processed in accordance with laws, regulations and management policies;
- receivables are promptly recognized and balances are periodically evaluated;
- purchases are made in accordance with laws, regulations and management policies;
- revolving fund disbursements are authorized and processed in accordance with laws, regulations and management policies;
- cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists;
- payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled, and access to personnel/payroll records and processing areas are restricted;
- purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records;
- physical computer controls are in place and functioning;
- investments are adequately controlled and securities are safeguarded; and
- trust funds are established in accordance with SUAM guidelines.

SCOPE AND METHODOLOGY

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 1996-97 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 July 1997 to March 1998 and July 27, 1998 to August 21, 1998. Our primary focus was on internal controls, and we reviewed and tested:

- procedures for receipting and storing cash, and segregation of duties involving cash receipting and recording of cash receipts;
- establishment of receivables and adequate segregation of duties regarding billing for and payment of receivables;
- approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;
- limitations on the size and types of revolving fund disbursements;
- use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;
- authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies;
- posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;
- access restrictions to automated accounting systems and proper documentation of systems;
- procedures for initiating, evaluating, and accounting for investments; and
- establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond the date of this report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to make recommendations in areas requiring improvement, comments on favorable matters are not discussed.

BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. The Office of the University Auditor of the CSU is responsible for conducting such audits within the CSU. This report represents our biennial review.

OPINION

We visited the CSU, Northridge campus from March 30, 1998 through May 15 1998, as well as July 27, 1998 through August 21, 1998 and audited the internal control structure in effect at that time.

In accordance with the Government Code Section 13402, et seq., state agency heads are responsible for establishing and maintaining systems of internal accounting and administrative control. The broad objectives of control systems for state agencies are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded from unauthorized use or disposition; and

- transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the State Administrative Manual.

Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk, inasmuch as procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate. (See Appendix B, *Statement of Internal Controls.)*

Our audit disclosed conditions which, in our opinion, if not corrected would likely result in significant errors and irregularities. Specifically, the campus does not maintain adequate internal control over cash receipts, accounts receivable, purchasing and fixed assets. Other areas requiring improvement are found in the Executive Summary.

EXECUTIVE SUMMARY

The purpose of this section is to provide 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

SATELLITE CASHIERING [9]

Internal control weaknesses were found in the satellite cashiering areas. Adequate accounting and control of cash collections and deposits decrease the risk that misappropriation of funds will not be detected.

FEE RECONCILIATIONS [12]

The campus did not accomplish application fee reconciliations during fiscal years 95/96 and 96/97. Timely fee reconciliations decrease the risk that errors or misappropriation of fees will not be detected.

LARGE DEPOSIT NOTIFICATIONS [13]

Notification to the state treasurer's office involving daily deposits for any one account in excess of $100,000 was not documented. Timely notifications to the state treasurer's office of large deposits ensure that these funds are provided adequate collateral.

ACCOUNTS RECEIVABLE

DISCHARGE/RELIEF FROM ACCOUNTABILITY [14]

The campus did not pursue all available options in resolving delinquent accounts receivable. This is a repeat finding from our prior FISMA audit. Pursuing all available options in the collection of delinquent receivables limits the potential loss of revenues.

TIMELY BILLINGS/RECEIPTS [16]

Campus billings for services rendered were not consistently issued or collected in a timely manner. The timely invoicing and collection of outstanding obligations increases working capital and limits any potential loss of revenue to the state.

ACCOUNTS RECEIVABLE RECONCILIATION [17]

Internal controls involving both parking citation and student sponsor accounts receivable reconciliations were inadequate. Performing adequate and timely accounts receivable reconciliations decreases the risk that errors and irregularities will not be detected.

PURCHASING

LEASE OF PRESIDENT'S RESIDENCE [18]

A lease agreement between the campus and an auxiliary organization, the CSUN University Corporation (UC), and a related memorandum of understanding (MOU) involving the president's residence were deficient. Various charges to the general fund for utilities, repairs, and other services to the president's residence were not properly reimbursed. Proper establishment of agreements reduces the risk that inappropriate expenditures will occur.

OPEN PURCHASE ORDERS [20]

The campus's open purchase order report did not accurately reflect outstanding items for follow-up by accounting and procurement. When controls over outstanding purchase orders are adequate, there is an increased opportunity for the timely identification and resolution of delivery delays and lost orders.

VENDOR MASTER FILE [21]

Access to the purchasing and accounts payable vendor master file was not adequately controlled. Limiting access to the vendor master files decreases the risk of fraudulently misdirected payments.

AUTOMATED SYSTEMS CONTROLS [22]

Controls for the integrated purchasing and accounts payable systems require strengthening. Maintaining adequate automated system controls decrease the risk of fund misappropriation.

PURCHASE DISCOUNTS [23]

The campus did not consistently pursue vendor discounts. Taking full advantage of vendor discounts increases fund availability for other purposes.

RECEIVING DEPARTMENT [24]

Internal controls for the campus receiving department require strengthening. Improving internal control procedures related to the receipt of goods decreases the risk of loss from inappropriate acts.

CREDIT CARD PURCHASES [25]

Campus credit card procurement system procedures were deficient. Strengthening these procedures will reduce the risk of inappropriate acts.

REVOLVING FUND

CHANGE FUNDS [26]

Independent cash counts for petty cash change funds were not occurring timely, and two funds were not properly approved by the state department of finance. This is a repeat finding from our prior FISMA audit. Timely counts of properly authorized petty cash change funds decrease the risk that missing funds are not detected.

REVOLVING FUND RECONCILIATIONS [27]

Revolving fund reconciliation procedures were inadequate. Performing prompt and complete reconciliations increases the opportunity for timely detection of errors and irregularities.

CASH DISBURSEMENTS

CHECK WRITING CONTROLS [28]

The campus check writing process was not adequately controlled. Strengthening check writing process controls decreases the risk of theft and misuse of state funds.

STATE CONTROLLER'S OFFICE EXPENDITURE RECONCILIATIONS [29]

State controller's office (SCO) expenditure reconciliations were not completed in a timely manner. Timely SCO expenditure reconciliations increase the likelihood that errors and irregularities will be detected.

PAYROLL/PERSONNEL

AUTHORIZATION FOR PAYROLL AND PERSONNEL ACTIONS [29]

Authorization controls involving payroll and personnel transactions were inadequate. Strengthening authorization controls over payroll and personnel transactions decrease the risk of pay errors and irregularities.

EMPLOYEE SEPARATION PROCEDURES [31]

The campus employee separation process was incomplete. Establishing adequate employee separation procedures decrease the risk of unauthorized and/or inappropriate uses of state resources and any resulting loss of state funds.

LEAVE COORDINATION [32]

The campus was not coordinating workers' compensation leave information with related entities such as auxiliary organizations that hire off-duty campus employees. The coordination of payroll/personnel information between campus organizations with shared employees decreases the risk that errors or irregularities will not be discovered timely.

FIXED ASSETS

RECONCILIATION OF EXPENDITURES WITH PROPERTY RECORDS [33]

Reconciliations between property records and the general ledger were not prepared timely. Timely reconciliations of property records to the general ledger decrease the risk that errors and irregularities will not be detected.

PROPERTY SURVEY REPORTS [34]

Property survey reports were not properly completed. Proper completion of property survey reports strengthens accountability over disposal of state property.

RETURNED PROPERTY REFUNDS [35]

Procedures involving refunds for property returned to vendors were inadequate. Adequate purchase refund procedures prevent accounting errors and loss of property and/or funds.

PHYSICAL INVENTORY [36]

Documentation of the campus reconciliation of physical inventories with accounting records was incomplete. Timely reconciliations of physical inventories with accounting records reduce exposure to loss/misuse of fixed assets.

INVESTMENTS [37]

Investment accounting and management controls were inadequate. Written investment procedures can help to maximize investment earnings and prevent accounting errors.

FISCAL INFORMATION TECHNOLOGY [38]

Fiscal information technology management procedures were deficient. Sufficient planning and oversight over information systems and data can prevent significant losses of both information and time and effort in reconstructing data.

TRUST FUNDS [39]

Trust accounts and their supporting trust fund agreements were not always properly maintained. This is a repeat finding from our last two FISMA audits. Adequate documentation of trust fund transactions and agreements decreases the risk of inappropriate expenditures.

SIGNATURE CARDS [41]

Signature cards (specimen signatures) at purchasing, payroll and personnel were not always current for proper authorization of transactions. This is a repeat finding from our last FISMA audit. When signature cards are current, the risk of improper or unauthorized transactions is decreased.

POLICIES AND PROCEDURES [41]

The cashiering, accounts receivable, cash disbursements, revolving fund, trust funds, and general accounting (including investment accounting) functions did not have formally documented policies and procedures. Proper documentation and communication of policies and procedures can decrease the risk that internal controls are compromised.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Internal control weaknesses were found in satellite cashiering areas.

The three satellite cashiering areas selected for review, including extended learning, parking, and the student health center, contained several internal control weaknesses. Due to issues raised during our audit fieldwork, we also visited the accounting office.

Internal control weaknesses included a lack of regular detailed reconciliations of cash receipts to transaction source documents, insufficient control over the access of cash receipts, inadequately separated cash receipting duties, and inconsistently applied transfer accountability procedures.

<u>Extended Learning</u>

Internal control weaknesses noted at extended learning included:

- course enrollments were not reconciled to fees collected;
- accountability for cash receipts was not localized when two or more persons had access to the same cash box;
- access to the campus automated cashiering system was not limited to the individual who logged in;
- pre-numbered receipts were not issued when cash was received from the students;
- enrollment duties were not adequately separated from receipting duties;
- transfer accountability of cash receipts was not consistently established;
- checks received were not consistently and immediately stamp endorsed;
- facilities were inadequate to secure checks received during peak enrollment periods when over one hundred thousand dollars could remain undeposited during any given day.

The executive director of extended learning indicated that, at the time of our fieldwork, a newly hired registration coordinator had not yet completed her analysis of registration processes, which included cashiering (receipting) control options. He further indicated that a computerized process to perform a detailed reconciliation of receipts was being developed.

Parking

Internal control weaknesses noted at the parking office included:

- accountability for cash receipts was not localized when two or more persons had access to the same cash box;
- parking meter receipt tallies by lot or zone were not reconciled to collections by lot or zone;
- daily parking permit tickets sales were not reconciled by type (machine and manual) to receipts by type;
- strict control over daily parking permits was not maintained, including pre-numbering and custody and usage controls;
- parking citations issued were not reconciled to detailed collection records, including consideration of other dispositions of amounts owed (dismissals, etc.);
- citation receivable functions were not adequately separated from receipting functions;
- facilities to adequately secure cash receipts were available, however, they were not in use at the time of our audit fieldwork;
- checks received were not consistently and immediately stamp endorsed.

The associate director, department of public safety, parking and transportation services, stated that work processes were currently being evaluated and all issues identified above had not been fully considered.

Health Center

Internal control weaknesses found at the health center included:

- accountability for cash was not localized when two or more persons had access to the computerized cash register;
- access to the campus automated cashiering system was not limited to the individual who logged in;
- transfer accountability of cash receipts was not consistently established.

The health center cashier indicated that, because of the small-scale nature of its operations, controls over cashiering functions were limited.

Accounting Office

Internal control weakness found at the accounting office included:

- facilities were inadequate to secure checks, which could range from two thousand to over one million dollars, received during a typical business day.

The university controller stated that the accounting office is currently operating within a temporary facility, and a safe or similar devise had not been purchased in support of accounting operations.

SAM §8020 through §8023 require, in part, that:

- a separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to the time of its deposit;
- a receipt be given for all collections of coin and currency;
- deposit information be recorded in a manner whereby it can be readily audited;
- all checks, money orders, and warrants received for deposit be restrictively endorsed for deposit as soon as practicable after receipt, but no later than the end of the working day.

SAM §8032.1 requires, in part, that agencies that do not have a safe, vault, money chest, or other comparable storage adequate to safeguard cash will accumulate collections until they amount to $250 in cash or $10,000 in cash, checks, money orders, and warrants, whichever occurs first.

SAM §20003 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets. This includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The university controller commented that his office had not completed its risk assessment of campus cashiering locations in coordination with managers responsible for these operations. He stated that the campus was weighing student service requirements and control objectives, which included considering risks identified and controls recommended by SAM and the possibility of alternative mitigating controls as appropriate.

Inadequate accounting and control of cash collections and deposits increase the risk that misappropriation of funds will not be detected.

Recommendation 1

We recommend that the campus take the following actions with respect to the satellite cashiering operations discussed above and those not included within the scope of our examination:

a. perform regular detailed reconciliations of cash receipts to transaction source documents;
b. control access and handling of cash receipts;
c. control access and handling of transaction source documents (i.e. daily parking permits);
d. provide pre-numbered receipts to students for payments received;
e. separate receipting and other functions;
f. document transfers of accountability;
g. stamp endorse checks;
h. adequately safeguard cash receipts.

Campus Response

a. We agree with the finding. Reconciliation logs are now produced and reviewed daily. A carefully designed procedure is in development stages to insure proper separation of duties and internal control. Completion date for the procedure is May 1, 1999.

b. We agree with the finding. Internal control procedures have been established to restrict access to and limit the handling of cash receipts, as well as monitor the handling of those receipts. The cashiering function is now located in a small room separate from the enrollment function. There are three employees who alternate as cashier and each maintains a separate cash box.

c. We agree with the finding. In the case of Extended Learning, "source documents" refers to registration receipts (the forms issued to students upon payment). Both the internal control procedures and the data systems have been modified to restrict access to the individual performing the cashiering function.

d. We agree with the finding. All receipts are now pre-numbered.

e. We agree with the finding. Receipting duties have been separated from enrollment functions. Both internal procedures and the information system prevent the same individual from both enrolling a student and issuing a receipt.

f. We agree with the finding. Transmittal logs now ensure that transfers of accountability (and payments) are documented.

g. We agree with the finding. Checks are stamp endorsed upon receipt from the student.

h. We agree with the finding. Access to cash receipts has been restricted. Daily receipts are comprised of cash, checks and credit card forms. Cash and checks together with the transmittal log will be delivered to SFS every day. Only credit cards are logged into the campus CashNet system daily by Extended Learning; cash and checks are recorded in the CashNet system by SFS. Transmittal logs are kept of cash received. Transmittal logs ensure that the transfer of cash is documented. All cash receipts are logged into the campus CashNet system. Complete use of the CashNet system is expected by May 1, 1999.

FEE RECONCILIATIONS

The campus did not complete application fee reconciliations during fiscal years 95/96 and 96/97.

SUAM §3825 requires a regular reconciliation of applications for admission to fees received for each academic year term.

The manager of student financial services indicated that, due to workload considerations, completion of the reconciliation was given a low priority.

By not reconciling fees timely, errors or misappropriation of funds may not be detected.

Recommendation 2

We recommend that the campus reconcile admission applications to fees received for each academic year term.

Campus Response

The campus agrees with the finding. Application fee reconciliations have been completed for fiscal years 95/96, 96/97 and 97/98. Please note that Fall 98 is not fully completed. Fall 98 will be complete by March 31, 1999.

LARGE DEPOSIT NOTIFICATIONS

Notification to the state treasurer's office involving daily deposits for any one account in excess of $100,000 was not documented. Therefore, we were unable to establish campus compliance with notification requirements.

SAM §8033 requires that the campus notify the state treasurer whenever deposits for any one account are in excess of $100,000 in any given day.

The manager of student financial services indicated that the lack of documentation was due to an oversight and that documentation would be resumed.

Without documentation, the state treasurer could erroneously claim that it was unable to properly collateralize funds.

Recommendation 3

We recommend that the campus document its compliance with state treasurer requirements.

Campus Response

The campus agrees with the finding. Documentation for deposits over $100,000 has been resumed and is recorded in the daily deposit log. The documentation records the date and the name of the person contacted in the State Treasurer's Office.

ACCOUNTS RECEIVABLE

DISCHARGE/RELIEF FROM ACCOUNTABILITY

The campus did not pursue all available options in resolving delinquent accounts receivable. This is a repeat finding from our prior FISMA audit. However, progress within this area has been made since the prior FISMA audit.

Student Accounts Receivable

A review of the student accounts receivable accounting records indicated that, as of March 1998, there was over $359,000 in outstanding student accounts receivable for fiscal year 96/97; $377,000 for fiscal year 95/96; and $419,000 for fiscal years 94/95 and beyond.

The manager of student accounting indicated that older receivables resulted from a campus practice not to disenroll or place holds on enrollment for students owing fees to the campus. Beginning with the fall 1997 term, the campus disenrolled only those students whose accounts were significantly in arrears.

Payroll Receivables

A review of campus subsidiary accounting records indicated that, as of April 1998, outstanding payroll accounts receivable exceeded $140,000. Half of this total was more than one year old.

The director of human resources services indicated that improvements in collection efforts have been made and that a significant portion of the receivables greater than one year old appear uncollectible and are being scheduled for write off.

Parking Citations Receivables

A review of campus parking citations receivables revealed that between $100,000 and $150,000 in citations are more than three years old, and collectibility is unlikely.

The associate director, public safety, parking and transportation services, indicated that efforts to utilize the department of motor vehicles for collection on a large number of citations proved unsuccessful. An analysis of legal options for discharging these citations is underway.

SUAM §3822 requires prompt follow-up of accounts receivable including utilization of the offset claim procedures for accounts greater than $10.

Executive Order 616, dated April 19, 1994, delegated authority to the campuses for local adjustment to $1,000.

SAM §8776.6 established procedures for the collection of outstanding accounts receivable. If all reasonable collection procedures do not result in payment, the campus may request relief from accountability of uncollectible amounts from the state board of control.

According to the university controller, internally developed software was unsuccessfully used to establish lists for submitting delinquent amounts to the Franchise Tax Board (FTB) offset program for calendar 1996 and 1997 tax years. Delinquency data generated by that software was erroneous and would have caused amounts that were not due to the state to be collected. The controller indicated that the services of a collection agency were obtained in the spring of 1998. At the time of our audit fieldwork, however, no accounts had been transferred for collection. Pending completion of these final attempts to collect (FTB offset), no recent request has been made to the state board of control for relief from accountability. Further, the controller stated that the campus was in the process of reorganizing the accounts receivable function and planned to hire a manger who would be responsible for compliance with state requirements.

By not pursuing all available options in the collection of delinquent accounts, the campus is misstating its current and/or future assets and possible cash flow.

Recommendation 4

We recommend that the campus:

a. continue to improve collection procedures by transferring delinquent accounts to its contracted collection agency;
b. seek relief from accountability from the state board of control for accounts declared uncollectible.

Campus Response

a. The campus agrees with the finding. Collection agencies are used for payroll accounts receivable and Perkins loans. The university has and intends to continue to transfer delinquent payroll and Perkins related accounts receivable to contracted collection agencies.

   In addition, a review will be conducted to assess the university's experience and benefits derived from using collection agencies and a recommendation made, prior to 6/30/99, with regard to the use of a collection agency for student accounts receivable. Estimated completion date is June 30, 1999.

b. The campus agrees with the finding. Documentation and recommendations have been finalized to request discharge from accountability and to write off student and employee accounts receivable balances for which all required and cost-effective remedies have been exhausted and collection is considered improbable. The Application for Discharge from Accountability was submitted on December 17, 1998 for student accounts receivable balances outstanding through June 30, 1996 and employee accounts receivable balances as of December 1998.

   In addition, the following actions have been effected in furtherance of the university's endeavor to optimize its opportunities to impact cash flow:

- An Accounts Receivable /Collection Manager has been hired to define, develop and implement policies and procedures, in line with State and University requirements.
- On November 23, 1998 the University submitted a list of delinquent student accounts receivable to the Franchise Tax Board (FTB) to offset any refund that is due to the student against their outstanding debt.
- The process of student disenrollment for non-payment of fees was utilized during the fall 1998 semester. In addition, the installment payment period for payment of registration fees has been accelerated.
- The practice of placing a hold on all academic records has been and is in effect.

TIMELY BILLINGS/RECEIPTS

Campus billings for services rendered were not consistently issued or collected in a timely manner.

Requests to invoice auxiliary organizations were not submitted timely by campus service provider departments. Thus, amounts owed by these on-campus organizations were not collected timely. Delays of over six months were noted during our review of documents.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

SAM §8776.6 provides specific criteria for collecting outstanding amounts owed the university, including sending three follow-up letters at thirty-day intervals after the initial billing, etc.

The supervisor of non-student accounts receivable indicated that control and maintenance of these types of receivables was, until recently, given a low priority.

When outstanding obligations due to the general fund from other sources are not invoiced in a timely manner, funds available for investment are reduced.

Recommendation 5

We recommend that the campus ensure that billings for services to auxiliary organizations and other on-campus groups are made in a timely manner.

Campus Response

The campus agrees with the finding. The Accounts Receivable Manager and Supervisor of non-student accounts receivable have been and continue to be proactive in meeting with the service providers, the enterprise funds, and auxiliary corporations to identify the needs and concerns of all parties.

Procedures will be established to facilitate the billing process and improve cash flow. This is an on-going process to educate and monitor service providers and auxiliaries.

Responsible individuals in each service provider and auxiliary activity will be appointed to regularly communicate with non-student accounts receivable personnel regarding open/unissued work orders, purchase order processing, month-end reconciliations and prompt resolution and payment of overdue balances. The Accounts Receivable Manager has given this matter top priority. With cooperation and teamwork, the mechanisms necessary for timely billing and payment can be operational prior to June 30, 1999.

ACCOUNTS RECEIVABLE RECONCILIATIONS

Internal controls involving both parking citation and student sponsor accounts receivable reconciliations were inadequate.

For example:

- A parking citation receivable control account total was not recorded on the campus records. Such recordings serve as crosschecks for verifying the accuracy of subsidiary accounting records maintained by the parking office.

- Student sponsor accounts receivable subsidiary accounting records were not adequately maintained in prior years and did not provide detailed support for outstanding balances recorded as amounts owed by sponsors.

SAM §20003 requires an effective system of internal control, which includes regular reconciliations of control account totals to subsidiary accounting record totals.

The associate director, department of public safety, parking and transportation services, indicated that recording citation receivables on the campus books had been considered during his analysis of parking accounting processes but had not been accomplished. Pending completion of his analysis, this function is to be performed.

The manager of student accounting indicated that the existing student billing and receivable system did not allow for postings of revenues first by sponsor and then by student. Because of this inadequacy within the computer system, outstanding balances were difficult to prove.

Inadequate accounts receivable reconciliations increase the risk that errors and irregularities will not be detected.

Recommendation 6

We recommend that the campus:

a. record outstanding citation receivables on the campus books and regularly reconcile subsidiary detail records to that control total;
b. reconcile sponsor accounts receivable control totals by sponsor to subsidiary accounting records and identify any uncollectible amounts;
c. perform regular follow-ups on student sponsored accounts receivable, utilizing alternative systems to maintain the detail for outstanding sponsor balances.

Campus Response

a. Outstanding parking citations are recorded via subledger and will be included in the combined financial statements of the University under generally accepted accounting principles as a routine adjustment. Reconciliation of the detail records is covered *under Reconciliation1.Parking.e.* Estimated completion date is June 30, 1999.

b. The reconciliation of sponsored student accounts receivable has been completed and is 100% current.

c. Because of system limitations, the process of identifying and maintaining student specific data is manual. The reconciliation process includes the review of outstanding balances and documents. Sponsors are informed of outstanding issues and payments with regular follow-up as needed for resolution.

PURCHASING

LEASE OF PRESIDENT'S RESIDENCE

A lease agreement between the campus and an auxiliary organization, the CSUN University Corporation (UC), and a related memorandum of understanding (MOU) involving the president's residence, were deficient. Various charges to the general fund for utilities, repairs and other services to the president's residence were not properly reimbursed.

<u>University Corporation House - Agreements</u>

The September 1992 lease agreement for a single-family residence and the related MOU were deficient in the following areas:

- the lease was not approved by the state (as was required at the time the lease was initiated);
- the agreement was not executed with appropriate review and consultation with the Office of the Chancellor (CO);
- the lease was not appropriately maintained and renewed at the end of the agreement's term (August 1996);

- the MOU was undated and was not appropriately created as an amendment to the original agreement.

The trustees' authority to enter leases of real property as lessee, independent of the State Department of General Services, did not become effective until January 1994 when Education Code 89048 was amended to allow such transactions. The trustees did not delegate this authority to the campuses until Executive Order No. 669 was issued in May 1997, several years after the creation of the agreement and MOU noted above.

Title 5, California Code of Regulations, §42500 indicates that auxiliary organizations may not enter into any contract or other business arrangement involving real property without prior approval of the campus president and without prior notification and consultation with the CO.

<u>University Corporation House - Physical Plant Management (PPM) Services</u>

Various charges for PPM services for the UC house were paid for with campus general funds.

From June to December 1995, services included a landscape and patio remodel of the UC house completed by PPM personnel (groundskeepers, carpenters, plumbers, etc.) at an estimated cost of $70,000. Our review also indicated additional maintenance of the UC house was provided since 1993 by PPM with little or no reimbursement of costs.

Subsequent to our fieldwork, the CSUN controller has indicated that the UC has reimbursed the general fund for the $70,000 expended for the landscape and patio remodel noted above.

<u>University Corporation House - Utilities</u>

Utilities for the UC house occupied by the campus president (electric, gas and water) were paid from campus general funds.

From September 1992 (the date of the president's move into the UC residence) through January 1993, the president paid 100% of the utility bills of the UC house. In February 1993, the campus determined that the president should only be responsible for 25% of those costs as personal use of utilities, the other 75% to be paid by the general fund. It was determined to both refund that portion already paid (over 25%) and invoice for 25% of the future use. Receivables were set up using quarterly invoices that were issued to the president. In June 1995, the campus took action to write off the receivables. Subsequent to the decision to write the amount ($1379.75) off, the campus has accepted responsibility for 100% of the utilities for the UC house.

The basis for writing off utilities receivables relating to the residence was not adequate. Similarly, justification for not charging for personal use of utilities was not adequate.

Recommendation 7

We recommend that the campus:

a. revise its lease and operating arrangements for the president's residence, obtaining appropriate approvals;
b. obtain from the UC reimbursement for maintenance services; and,
c. obtain from the president reimbursement for that portion of personal use of utilities ($1379.75) previously written off.

Campus Response

a. University Corporation House – Agreements: A new lease and operating agreement (Memorandum of Understanding) will be executed in accordance with Executive Order No. 669 by March 31, 1999

b. University Corporation House - Physical Plant Management (PPM) Services: The campus agrees with the finding. We will research the additional maintenance items provided to the Corporation House by PPM and obtain reimbursement from the UC as appropriate. Completion of this item is expected by March 31, 1999.

c. University Corporation House – Utilities: The President has reimbursed the campus for that portion of the utilities that was believed to have been consumed for personal use and as such, had been reversed off of campus accounting records. Previous payment had not been made when a former member of the financial management team concluded that such costs should be borne by the campus.

OPEN PURCHASE ORDERS

The campus open purchase order report did not accurately reflect outstanding items for follow-up by accounting and procurement. The report contains numerous entries that were erroneously included at the time the new purchasing computer application was installed.

SAM § 8422.20 requires follow up on outstanding purchase documents/contracts to determine whether all goods and services ordered are actually received.

Both the procurement contracts administrator and accounts payable manager indicated that their follow-up and analysis of open purchase orders was not complete, as higher priority workload took precedence.

When controls over outstanding purchase orders are inadequate, delivery delays and lost orders will not be identified and resolved in a timely manner.

Recommendation 8

We recommend that the campus open purchase order report be corrected to appropriately reflect outstanding items. In addition, the campus needs to implement procedures to ensure that appropriate and timely follow-up is given on outstanding purchase orders.

Campus Response

The campus agrees with the finding. A campus policy has been established which requires that we complete each fiscal year closeout by January 31st of the next fiscal year. All prior year closeouts will be directly overseen by the Assistant Director, Purchasing & Logistical Services, and shall be completed by January 31st of the next fiscal year.

At the time of the FISMA audit, progress had been made in reducing open orders from three (3) prior years to one (1) prior year outstanding. At this time, a schedule has been established to ensure the timely closeout of prior year orders. Fiscal year (FY) 1996/1997 orders were closed out as of November 30, 1998 and FY 1997/1998 closeouts are to be completed by February 28, 1999.

VENDOR MASTER FILE

Access to the purchasing and accounts payable vendor master file was not adequately controlled. Both accounting and purchasing staff had the ability to create and update vendor files.

SAM §20003 states a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets must be established.

The procurement contracts administrator and accounts payable manager indicated that controlling vendor file access and update capabilities had not been fully considered during system implementation.

By not properly limiting access to the vendor master files, there is an increased risk of fraudulently misdirected payments.

Recommendation 9

We recommend that the campus review and modify, where appropriate, the list of employees having access to the vendor master file.

Campus Response

As of November 2, 1998, accounts payable (AP) access has been restricted to a designated AP employee. The designated employee does not have access to create a voucher.

AUTOMATED SYSTEMS CONTROLS

Internal controls for the integrated purchasing and accounts payable system were deficient. We found that:

- incompatible functions within individual user profiles or system access/updating capabilities need to be further considered to ensure proper segregation of duties (i.e. vendor master file access discussed above);
- employee computer user profiles were not always authorized by management in writing;
- management did not regularly monitor changes in profiles, thus risking inappropriate access, particularly when employees changed campus departments;
- a history of changes in user profile was not maintained, resulting in the inability to affirm who approved specific transactions.

SAM §8080.1 states that an appropriate level of separation of duties for agencies with automated accounting processes should be maintained. The duties performed above should be performed separately in order to maintain an adequate system of internal control.

The university controller and director of purchasing indicated that a study of purchasing processes was underway. Implementation of specific controls is pending per the results of this study.

Failure to maintain adequate automated system controls increases the risk of fund misappropriation.

Recommendation 10

We recommend that the campus implement the controls necessary to address integrated purchasing and accounts payable system weaknesses.

Campus Response

The campus agrees with the findings and will initiate the following actions:

- Current access is now being reviewed and corrected where appropriate. We have developed new forms and procedures to require management review and approval of all new accounts or change requests. In order to inform campus-wide departments and receive feedback, a completion date of March 30, 1999 has been established.
- As of October 15, 1998, we have implemented new forms and procedures to require management review and approval of all new accounts and change requests.
- We are researching new forms and procedures to provide notification of employee status changes to management for account status review and modification. The target for completion is September 30, 1999.
- As of October 15, 1998, we have implemented new forms and procedures requiring management review and approval of all new account and change requests. These forms will be kept on file to provide a history of changes in user profile.

PURCHASE DISCOUNTS

The campus did not consistently pursue vendor discounts. In our sample of over 30 invoices, we found two instances where discounts were available and both were missed.

SAM Section 8422.1 requires the campus to apply discounts on invoices submitted on claim schedules.

In the cases where discounts were not taken, the accounts payable manager indicated that this was due to errors and oversights of technicians. Reports identifying discounts lost could not be obtained from the current accounts payable system.

By not taking full advantage of vendor discounts, the campus is expending funds that could be used for other purposes.

Recommendation 11

We recommend that the campus strengthen procedures to ensure that all vendor discounts are taken.

Campus Response

The campus agrees with the finding. An electronic report was created in October 1998. The report identifies and captures purchase orders that have vendor terms assigned to them that would generate a purchase discount. Accounts Payable will ensure special handling of identified orders to take available discounts.

RECEIVING DEPARTMENT

Internal controls for the campus receiving department were deficient. We found that:

- certification of receipts was not always based upon direct observation of merchandise delivered to the campus. Faxes from accounting technicians and representations by departments via telephone were erroneously accepted by receiving department staff;
- access to the integrated purchasing and accounts payable system's receipt certification entry screens was not adequately segregated. Various employees perform this function by operating under one employee's system access password;
- certifications of receipts entered into the system were not reconciled to receipting documents. Differences identified in the past related to stolen and missing items that did not have a specific campus delivery address. With regard to the disposition of such undeliverable items, a campus policy had not been established;
- campus practice required the receiving department to pay for items stolen from its custody out of its regular operating budget. However, there was no written campus policy regarding this practice. SAM §20003 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

According to the manager of the campus receiving department, loss of merchandise had been minimal. However, such losses prompted an evaluation of existing controls which identified similar concerns as noted above. Changes in controls were pending at the time of our audit.

Not implementing improvements in control procedures increases the risk of loss from inappropriate acts.

Recommendation 12

We recommend that the campus, at a minimum, establish the internal controls necessary to mitigate the weaknesses in receiving department procedures noted in this finding.

Campus Response

The campus agrees with the finding. On October 15, 1998, a new procedure was implemented. The procedure requires that Central Receiving accept written certification only from the receiving department representative. The certification will detail the applicable purchase order (PO) number, vendor name, date and quantity received and PO status (partial or complete). Automatic lockout features were installed October 21st, that eliminate access by a person other than the individual who logged-on using the individuals secure password. On October 22nd, a weekly electronic report was created that lists all goods received which are then entered into the system. The report is reconciled weekly to receipting documents. Central Receiving issued a new operating procedure September 8, 1998 that addresses the status of unidentified items delivered to Central Receiving. Also on September

8, 1998 the Director, Purchasing & Logistical Services issued a formal policy stating that Central Receiving will pay for items stolen from its custody after proper delivery to the campus and before delivery to the requesting department.

CREDIT CARD PURCHASES

Campus credit card procurement system procedures were deficient. Specifically:

- independent review and authorization of purchases were not always required (i.e. transactions made by administrators were reviewed and approved by their subordinates in some instances);
- original or certified original documents were not always required as support for disbursements;
- procedures did not sufficiently address accounting processes.

SAM §20003 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The procurement contracts administrator and accounts payable manager indicated that the program was newly implemented across campus and procedures were updated regularly. The issues identified were under consideration for the next regular procedures update.

The lack of implementation of credit card procurement procedures increases the risk of loss from inappropriate acts.

Recommendation 13

We recommend that the campus correct credit card procurement system procedural weaknesses including the need to:

a. match credit card system authorization level requirements with campus standards for other purchasing transactions;
b. ensure adequate and appropriate supporting documentation is maintained for charges;
c. develop detailed written accounting procedures.

Campus Response

The campus agrees with the finding. The following actions have been taken:

a. Delegated authority now sets credit card authorization levels. Procurement card (ProCard) purchase approvals are required to be made by the department head or their designee as traditional requisitions are. We have, however, modified ProCard procedures to specify that a subordinate may not review and approve purchases initiated by a superior.

b. As of October 15, 1998, new procedures have been written for the accounts payable clerk who audits monthly ProCard statements. Included in the written instructions are specific directions that copies of invoices will be certified as originals by way of the following language:

> "This bill has been checked against our records and found to be the original one presented for payment and has not been previously paid. We have recorded this payment so as to prevent a later duplicate payment. Signature of Individual Certifying"

c. Procedures are now included in the ProCard Manual to inform a cardholder of their responsibility to resolve disputed items. Upon resolution by the cardholder a copy of the "Cardholder Statement of Questioned Item" must be sent to Accounts Payable to ensure that the credit for the disputed item will appear on the next statement.

REVOLVING FUND

CHANGE FUNDS

Independent cash counts for petty cash change funds were not occurring timely and two funds were not properly approved by the state department of finance. This is a repeat finding from our prior FISMA audit.

Revolving funds used for cash management (main campus cashiering) and the mailroom exceeded $5,000 and were not approved. These funds, which should have been subject to monthly cash counts, were counted only three times each during the last calendar year. Similarly, less frequently required counts were not completed as often as required.

SAM §8111.2 requires, in part:

- an employee other than the custodian of the petty cash fund will count it in accordance with the following schedule: annually if the fund is $200 or less; quarterly if between $200 to $500 or; monthly if greater than $500 to $2500; and
- each change fund in excess of $750 will be established only after approval by the state department of finance.

The university controller indicated that counts were being performed, albeit not with the frequency required by SAM. He further indicated that documentation was being prepared to obtain authorization from the department of finance. However, at the time of our fieldwork, it remained incomplete.

Without timely counts of properly authorized petty cash change funds, there is an increased risk that missing funds will not be undetected.

Recommendation 14

We recommend that:

a. the campus conduct timely cash counts of its petty cash change funds;
b. proper authorization for petty cash change funds is obtained from the state department of finance.

Campus Response

a. The petty cash custodian has prepared a schedule showing the amount of the petty cash fund and frequency of the audits as prescribed in SAM 8111.2. Each of the funds has been assigned to an accounts payable technician and it is the technician's responsibility to conduct surprise audits within the scheduled time period. A schedule of the random cash audits is maintained. Random cash audits are current through January 28, 1999.

b. The University Controller, on February 1, 1999, submitted written requests for approval of the two cash change funds and the one cash purchase fund that are greater than the limits stated in SAM 8111.1 and implied in SAM 8112.1 respectively.

REVOLVING FUND RECONCILIATIONS

Revolving fund reconciliation procedures were inadequate.

The December 1997 through February 1998 reconciliations were not completed until April 1998, and amounts relating to travel and advances were incomplete.

SAM §7900 requires monthly preparation of all reconciliations within 30 days of the preceding month.

The university controller indicated that delays in preparing timely and complete revolving fund reconciliations were due to turnover of key staff.

When reconciliations are not performed promptly, errors and irregularities are not detected promptly.

Recommendation 15

We recommend that the campus ensure that revolving fund reconciliations are complete and performed monthly.

Campus Response

As of February 2, 1999 the revolving fund reconciliation has been completed through the month of December 1998. Procedures have been established to ensure that this reconciliation is performed on a monthly basis. In addition, the reconciliation is reviewed and a signed approval is expected for completeness and accuracy.

CASH DISBURSEMENTS

CHECK WRITING CONTROL

The campus check writing process was not adequately controlled. Specifically:

- blank check stock was not adequately secured or controlled;
- check writing duties were not separated from unclaimed/uncashed check depositing duties;
- check writing computer system audit journals or registers were not retained or regularly examined.

SAM §8041 states that blank check stock will be kept under strict control at all times.

SAM §20003 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The university controller stated that the weaknesses noted within the check writing process were the combined result of limitations caused by accounting's temporary office facility, turnover in key staff, and staff training relating to implementation of its new laser check writing capabilities.

When the check writing process is not adequately controlled, accounts are subject to potential theft and misuse, resulting in the loss of state funds.

Recommendation 16

We recommend that the campus ensure that the check writing process is provided adequate protection.

Campus Response

The campus agrees with the finding. All checks are now kept in a locked fireproof cabinet. All check writing duties are under the check custodian and the unclaimed/uncashed check depositing duties are now the responsibility of a member of the fund accounting department. The check writing computer system audit journals are also examined weekly.

STATE CONTROLLER'S OFFICE EXPENDITURE RECONCILIATIONS

State controller's office (SCO) expenditure reconciliations were not completed in a timely manner.

The December 1997 through February 1998 reconciliations were not performed until April 1998 and large unreconciled differences still remained unresolved.

SAM §7900 requires monthly preparation of all reconciliations within 30 days of the preceding month.

The university controller indicated that changes in staffing and workload distribution contributed to the untimely reconciliations.

The timeliness of reconciliations affects the capability of the campus to detect errors and irregularities.

Recommendation 17

We recommend that the campus perform monthly reconciliations of state controller's expeditures.

Campus Response

The campus agrees with the finding. As of January 27, 1999 all reconciliations are completed through the month of December 1998. All reconciling items through December 1998 have been identified and action has been taken to resolve them. All reconciliations are reviewed and approved for completeness and accuracy. A sign-off by both the preparer and the reviewer is required.

PAYROLL AND PERSONNEL

AUTHORIZATION FOR PAYROLL AND PERSONNEL ACTIONS

Authorization controls involving payroll and personnel transactions were inadequate.

Our sample of payroll transaction requests, including regular terminations and other day-to-day changes in level or pay status, disclosed that eight of the twenty-eight transactions tested were communicated by departments to payroll via phone, email, etc. (without authorizing signatures), impacting rates of pay in some cases and employee anniversary dates in others. Further examination of payroll and personnel records indicated that controls over faculty and student payroll were indadequate as were controls over overtime.

Faculty

Authorizations for faculty payroll and personnel actions were inadequate. Specifically:

- changes in pay rates, etc. were transmitted to personnel in a signed letter, however, dollar amounts and other key information was not included;
- dollar amounts were submitted to payroll separately and without authorizing signatures;
- documents were not matched and filed as support for amounts paid to faculty. (Over $60,000 in differences were recently discovered.)

Students

Approximately 20% of the campus' student payroll timesheets were processed without first being signed by the students. Students were asked to sign timesheets at the time they picked up their paychecks;

Overtime

In our limited sample of overtime requests, we found that transactions were not:

- always signed by employees (two of six reviewed) to prevent fraudulent payment requests;
- batched to prevent erroneous insertion or deletion of payment requests.

SAM §20003 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The director of human resources services and the manager of payroll indicated that payroll and related personnel processes were reviewed as part of the campus' implementation of a new human resources computer system. Updating of procedures was still pending at the time of our fieldwork.

Inadequate authorization controls over payroll and personnel transactions increase the likelihood that pay errors or irregularities will occur.

Recommendation 18

We recommend that, at a minimum, the campus review and strengthen payroll and personnel transaction procedures to ensure that internal control weaknesses noted within this finding are corrected.

Campus Response

The campus agrees with the finding. The Payroll Department does not make changes that would affect the pay of any employee without authorization. A process for approving corrections in non-pay transactions by Payroll (i.e., corrections/adjustments of anniversary dates and position account number changes) will be revised by February 28, 1999. All faculty personnel transactions are being post-audited each semester by Faculty Affairs and Payroll. Faculty personnel transaction processing is under review and will be changed with the implementation of the PeopleSoft Human Resource Administrative System. This system is expected to be complete by the summer of 1999. The processing of student assistant payroll timesheets and overtime payment requests has been reviewed and new procedures will be established by February 28, 1999.

EMPLOYEE SEPARATION PROCEDURES

The campus employee separation process was incomplete. Specifically, we found that clearance forms were not:

- obtained for voluntary terminations;
- always complete;
- required for faculty terminations;
- required for interim employee terminations;
- sufficient regarding relinquishment of technology access.

SAM §8580.4 describes the need for adequate separation procedures, including preparation of a clearance form that includes clearance of revolving fund advances (travel and salary), return of keys, equipment, credit cards, etc.

The director of human resources services and the manager of payroll indicated that payroll and related personnel processes were reviewed as part of the campus' implementation of a new human resources computer system. Updating of procedures was still pending at the time of our fieldwork.

Inadequate separation procedures increase the risk of loss of state funds and inappropriate use of state resources.

Recommendation 19

We recommend that the campus review and strengthen separation procedures to ensure compliance with internal control requirements as presented in the above finding.

Campus Response

The campus agrees with this finding. The campus separation clearance process has been reviewed and revised as a result of the implementation of the PeopleSoft Human Resource Administrative System. A new separation clearance procedure will be published by February 28, 1999.

LEAVE COORDINATION

The campus was not coordinating workers' compensation leave information with related entities, such as auxiliary organizations, that hire off-duty campus employees.

A CSUN University Foundation (UF) employee, assigned to work at the president's residence, worked and received regular UF payroll while on workers' compensation leave from the campus. Campus personnel and payroll records indicated that the employee, employed as a custodian, was physically unable to work for the campus per medical review. The UF was not aware of the employee being provided workers' compensation by the campus but was aware that she was also employed full time by the campus. UF records were incomplete with respect to not having such records as employee recruitment information, a job description, and knowledge of regular hours worked or timesheets needed to determine whether some conflict existed with campus work requirements.

SAM §20003 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.

With regard to employee work status (i.e., workers compensation and working hours), the director of human resource services indicated that the position responsible for coordinating such information had been unfilled since fall of 1997 and all responsibilities had not been reassigned. He further indicated that a proper investigation of the facts and circumstances disclosed would be completed in accordance with campus procedures.

Failure to coordinate payroll/personnel information among related organizations with shared employees results in an increased risk that errors or irregularities will not be discovered timely.

Recommendation 20

We recommend that:

a. a procedure be developed to coordinate payroll and work status information (pay status) as it relates to individuals employed by both the campus and related organizations;
b. the campus resolve the specific workers compensation issue noted in this finding.

Campus Response

a. The campus agrees with this finding. The campus practice of coordinating leaves for individuals, who work for the State, as well as campus auxiliary organizations, is under review by a new Benefits Officer. This review will completely address the issue raised. A procedure is to be developed for reconciling the payroll and work status of individuals who are employed by both the campus and related organizations. The procedure will be completed by March 31, 1999.

b. The campus has had a third-party workers' compensation expert, employed under a contract by the Chancellor's Office, review the specific workers' compensation issue raised in this audit. The results of that review indicate that the action of the employee in this matter was completely appropriate and did not present any conflict with either CSU system regulations, campus workers' compensation procedures or workers' compensation law contained in the labor code. The consultant also conferred with the State Compensation Insurance Fund attorney-in-charge who concurred in this opinion.

FIXED ASSETS

RECONCILIATION OF EXPENDITURES WITH PROPERTY RECORDS

Reconciliations between property records and the general ledger were not prepared timely. As of May 1998, the last monthly reconciliation completed was for November 1997.

SAM §7969 requires agencies to reconcile equipment expenditures at the end of each month or each quarter from the current year's state operations appropriation with accretions of major property to the property ledger.

The manager, asset management, indicated that a new computer system was implemented in December 1997 and, as a result, completion of these reconciliations was given a low priority until the system was functioning properly.

Not completing property reconciliations in a timely manner increases the risk that errors and irregularities will not be detected.

Recommendation 21

We recommend that the campus complete timely property reconciliations with changes to the general ledger accounts.

Campus Response

The campus agrees with this finding. In December of 1997 a new BarScan System for asset reconciliation and inventory control was implemented. This BarScan system required a complete transfer of inventory data from the old IBM System to the BarScan System. In addition, during this period Asset Management was instructed to update our records in accordance with fund accounting guidelines required by GAAP. Accordingly, monthly reconciliations were suspended until these transactions were completed. Monthly reconciliations are now complete through November 1998.

PROPERTY SURVEY REPORTS

Property survey reports were not properly completed. Specifically:

- survey reports were not always properly authorized, i.e. signatures were either unauthorized or missing;
- when items were reported as missing, public safety reports were not always obtained and attached to survey reports;
- a sufficient audit trail specifying the final disposition of assets by sale or auction, donation or destruction was not maintained.

SAM §3520.2 indicates that each agency will have a duly appointed property survey board responsible for determining whether the best interest of the state is served in disposing of state property. To the extent possible, there will be a sufficient number of members on the board to ensure that both business management and program responsibilities will be represented. At least two members of the property survey board will approve all property survey reports and any transfers of location of equipment.

SAM §3520.5 indicates, in part, that:

- a properly executed property survey report must be completed when disposing of state-owned property;
- missing property is to be investigated by the department of public safety;
- property survey reports should include a section for a certification of disposition.

The campus asset manager indicated that property survey policies and procedures were outdated and did not address all changes in the campus' control of its assets.

Incomplete property survey reports reduce accountability over disposal of state property.

Recommendation 22

We recommend that the campus review and strengthen property survey procedures to ensure compliance with internal control requirements.

Campus Response

The campus agrees with this finding. Most cases cited were for items assigned to departments under Purchasing & Logistical Services. Because the Director, Purchasing & Logistical Services already signs as final reviewer he did not assume it necessary to sign twice. However, this has been addressed by having the specific department manager sign the report for items located in that department manager's area. In addition, all FY 1996/1997 and later survey reports will be reviewed to ensure proper signature and disposition information by March 30, 1999.

RETURNED PROPERTY REFUNDS

Procedures involving refunds for property returned to vendors were inadequate.

This process involves the campus department responsible for the property, campus receiving, property management, purchasing and accounting. We noted an instance were a computer system was returned to the manufacturer. However, a refund was not received, nor was it being pursued.

Procedural weaknesses included the following:

- the property office was not notified of the disposition of the property (the item was improperly carried on the campus inventory of property);
- the refund was not received and was not being pursued (neither the department nor purchasing was tracking the status of the refund, as a process to do so was not in place);
- the accounting office was not notified of the situation (if a refund check were to arrive it would be difficult to match the check to the returned property transaction).

SAM §20003 requires, in part, that there be record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The procurement contracts administrator and the manager of asset management indicated that this process had not been developed.

Failure to develop and implement adequate purchase refund procedures can result in accounting errors and a loss of property and/or funds.

Recommendation 23

We recommend that the campus develop procedures to ensure that returned equipment refunds are properly managed.

Campus Response

The campus agrees with this finding. As of September 23, 1998 the weaknesses noted have been addressed and the procedure for returned items has been updated. Purchasing will monitor the return process to ensure proper notification to and required action by all involved departments. This will ensure that refunds are managed throughout the process until refunds are returned and posted.

PHYSICAL INVENTORY

Documentation of the campus' reconciliation of physical inventories with accounting records was incomplete.

A campus-wide inventory was attempted during the prior fiscal year. However, documentation of the resolution of open items resulting from the inventory count was incomplete and the results of the count and reconciliation were not reported to management.

SAM § 8652, in general, requires a physical count of all property and a reconciliation of the count to accounting records and management oversight of resulting adjustments.

The manager, asset management, stated that reconciliations were incomplete and no reports had been prepared for management review on the results of the process.

Untimely reconciliations of physical inventories with accounting records increase campus exposure to loss/misuse of fixed assets.

Recommendation 24

We recommend that the campus complete its reconciliation of its physical inventory and report the results to management.

Campus Response

The campus agrees with this finding. It has been impossible to accomplish a true campus-wide inventory since the 1994 earthquake because we could not inventory buildings found to be unsafe for entry. Although an inventory of accessible buildings was taken last year, a full resolution of open items could not be accomplished due to the uncertainty of what was located inside inaccessible buildings. For example, campus personnel later considered the old Administration Building, which had served as a central storage location for items transferred into the building from campus-wide locations immediately after the earthquake, unsafe for entry. Items located within, could not be inventoried.

As retrievable assets in these buildings have now been removed, a physical inventory of all campus facilities and off-site warehouses began September 2, 1998. The new BarScan Inventory System is being used. Anticipated completion is May 30, 1999. Upon completion, results of the physical inventory and resolution of open items will be presented for review of the University Controller by June 30, 1999. At that time, results of the inventory will be reflected in both the Fund Accounting year-end close and the GAAP financial statements for the year.

INVESTMENTS

Investment accounting and management controls were inadequate. Specifically:

- written investment accounting procedures had not been developed;
- reconciliations to the general ledger were not timely;
- realized gains and losses needed to be included in interest allocations;
- cash flow analysis needed to be performed regularly.

SAM 20003 states that, to ensure compliance, management should document internal controls by using flowcharts, narratives, desk procedures, and organizational charts.

SAM 8099 states that cash flow management practices are an important factor in permitting the state to realize the most interest from the dollars that flow through its system.

The university controller indicated that, during the past year, the campus has striven to better control its investments by investing all funds conservatively and developing written accounting procedures addressing reconciliations, interest allocations, and cash flows. Such procedures have not been completed.

Not developing and implementing written investment procedures can result in accounting errors and investment earnings not being maximized.

Recommendation 25

We recommend that investment procedures, including cash flow forecasting, be developed and implemented.

Campus Response

The campus agrees with this finding. General ledger balances for investments are now reconciled with the brokers' statement of investment results on a monthly basis. Realized gains and losses are now included in the interest allocations. Cash flow analysis commenced as of June 30, 1998 and monthly analyses are now prepared in a timely manner.

Procedures and documentation of the reconciliations of investments and allocation of related income or loss were established in conjunction with the audit by the independent accountants. A draft of the procedures has been completed and is under review. Upon completion of the review and approval, the procedures will be adopted as part of the financial section of a proposed internal policies and procedures manual. Completion is expected by June 30, 1999.

Work is currently being done to develop a model to be used for cash flow forecasting and will be completed by April 30, 1999.

FISCAL INFORMATION TECHNOLOGY

Fiscal information technology management procedures were deficient. Specifically:

- local server backups of fiscal information computer systems and data were not stored in a secure, remote location off campus;
- a fiscal information technology disaster recovery plan had not been developed;
- workload priorities of the fiscal information technology group were not reported in writing to campus fiscal management;
- the database of systems access granted to fiscal managers and staff maintained by the fiscal systems and technology group information group was not reconciled to reports for the same from the campus main computer system.

SAM §20003 requires, in part, that record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures should be in place.

The manager of systems and technology group indicated that turnover of key staff and higher priority assignments had taken precedence over the accomplishment of a disaster recovery plan for administration and finance division systems and that timely action would be taken to address the other tasks identified.

Insufficient planning and oversight over information systems and data could result in significant costs in time and effort.

Recommendation 26

We recommend that the campus review and strengthen information systems processes to ensure that controls for resources and data are adequate.

Campus Response

- The campus agrees with the finding. Backup tapes for all major systems are now stored at an off-site facility. We have an annual contract with a storage company called Brambles. The fiscal information and technology group has ordered additional tape drives to create an added off-site set of backup tapes for the Administration and Finance servers. These tapes will be added to the tapes currently being sent off-site. Completion is expected by April 1, 1999.
- There is currently a separate and independent IT emergency/disaster response action plan on file with Campus Police. The plan located at Campus Police is a general plan stating which individuals should be notified in the event of an emergency. Since CSUN's computing infrastructure is currently distributed in an extraordinary fashion, the plan identifies the location of each major system. The plan also identifies where within a particular facility the individual startup/shut down procedures can be located for each system. Should a copy of these locally placed individual procedures need to be deposited with Campus Police as well, this can readily be done. Given the volume of the procedures, however, the university has chosen this more distributed general approach.
- The fiscal information technology group submits a "goals and objectives" statement, in writing, to the Vice President of Administration and Finance, annually, at the beginning of each fiscal year. This statement outlines the ongoing and new priorities for the next fiscal year. In addition to that, the fiscal information technology group meets regularly with the individual directors in the division, to address priority shifts and emergency projects as they arise. Due to major projects, such as PeopleSoft/CMS, the primary priority for the department for the next few years, detailed priorities will be driven by the CMS central effort. Development of a more formal local priority plan in writing would not be practical.
- A report called Resource Access Control Facility (RACF) is run regularly to reconcile users access. This report is run on demand for areas such as Systems and Technology. The fiscal technology group will reconcile the local database of user access that it keeps with the central RACF reports on a regular basis. The fiscal technology group is implementing procedures to reconcile these databases on an ongoing basis. This will be complete by May 1, 1999.

TRUST FUNDS

Trust accounts and their supporting trust fund agreements were not always properly maintained. This is a repeat finding from the last two FISMA audits.

We reviewed documentation for ten trust funds and two expenditures from each fund tested and noted the following:

- seven of the ten agreements examined were incomplete only as to provisions on account closing and the final disposition of funds;
- fifteen of the twenty expenditures tested were not properly supported for several reasons, i.e. signatures approving payment did not match the signatures on the trust agreement, original or certified original documents were not required as support for all disbursements, and petty cash fee reimbursements were granted without an authorizing signature;
- trust check authorization duties were not adequately segregated, as the general accounting supervisor was also responsible for accounting for investments and was a trust fund signer on checks written from the investment interest clearing trust account.

SAM §19440.1 states that trust accounts are to be supported by documentation as to the type of trust, donor or source of trust moneys, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of moneys for administrative or overhead costs.

SAM §20003 requires, in part, that record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures should be in place.

The university controller indicated that duties will be properly segregated when a new supervisor of general accounting is hired, and he added that his office recently implemented an annual process to reaffirm trust fund agreements, including authorized signers. He further indicated that inadequately supported payments were accepted erroneously.

Inadequate documentation of trust fund transactions and agreements increases the risk of inappropriate expenditures.

Recommendation 27

We recommend that the campus properly maintain trust accounts and supporting documents and strengthen existing procedures.

Campus Response

Procedures have been put in place to regularly maintain the trust accounts and supporting documents. Complete reviews will be done annually. The review scheduled for Fall 1998 is complete. Trust fund records are current.

SIGNATURE CARDS

Signature cards (specimen signatures) at purchasing, payroll and personnel were not always current for proper authorization of transactions. This is a repeat finding from our prior FISMA audit; however, progress within this area has been made since the prior FISMA audit.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The university controller indicated that his office has taken a lead in bringing signature cards current during the last year, however, that effort is not complete.

When signature cards are not current, the risk of improper or unauthorized transactions is increased.

Recommendation 28

We recommend that signature card procedures be strengthened to ensure that all transactions are appropriately approved.

Campus Response

The campus agrees with the finding. Signature cards for Payroll were updated in November 1998. Authorization for initiating personnel transactions will be updated within the divisions of the university in February 1999, as a part of the startup of the PeopleSoft human resource administrative system.

POLICIES AND PROCEDURES

The cashiering, accounts receivable, cash disbursements, revolving fund, trust funds, and general accounting (including investment accounting) functions did not have formally documented policies and procedures.

SAM §20003 states that there should be an established system of practices to be followed in the performance of duties and functions and that it represents a control weakness if policy and procedure manuals are either not up to date or do not exist.

The university controller was aware of this issue and plans to begin preparing procedures. Addressing organizational and staffing issues that, in the controller's opinion, took precedence, delayed the preparation of policy and procedure manuals.

Internal controls of policies and procedures can be compromised if they are not properly documented and communicated to employees in the organization.

Recommendation 29

We recommend that accounting policies and procedures be documented and communicated to applicable staff.

Campus Response

The campus agrees with this finding. Both documentation and communication of policies and procedures are in planning stages. The effort is being coordinated by the University Controller's Office. Personnel in the Office have drafted a position description for a "Technical Writer". When filled, the successful candidate is to write needed policies and procedures for units within Financial and Accounting Services, under the guidance of the department managers. The department units include cashiering, accounts receivable, disbursements, revolving fund, trust funds, investments, and general accounting. This substantial undertaking is expected to take one year from the start date for the successful candidate. The final product will be WEB based. Completion is expected by November 30, 1999.

APPENDIX A:
PERSONNEL CONTACTED

Name	**Title**
Blenda Wilson	President
Clarence Askew	Manager, Asset Management
Edward Ball	Associate Director, Public Safety, Parking and Transportation Services
Richard Barrett	Accounting Technician, Extended Learning
Gary Brotz	Parking Officer, Parking and Transportation Services
Terry Castro-Oistad	Manager, Payroll Services
Mary Cooley	Manger, Parking, Parking and Trans Services
William Cooper	Director, Purchasing
Julie Crippen	Budget Director, Extended Learning
Dudley D'Apremont	Manager, Receiving Department
Nancy Edwards	Assistant Manager, Payroll
Arthur J. Elbert	Vice President, Administration and Finance
Eugene Garcia	Systems Analyst Financial and Accounting Services
Sue Goka	Registration Coordinator, Extended Learning
Janice Griffin	Manager of Operations, Financial and Accounting Services
Marcus Hissong	Director, Public Safety
Carolyn Holmes	Supervisor, Payroll
John Horton	Systems Analyst, Admin and Finance, Systems and Technology
Diane Jansen	Manager, Student Financial Services
Robert Kiddoo	University Controller, Administration and Finance
Kathleen Cekosh	Lab Receptionist, Student Health Center
Tamara Kotlyar	Accounting Technician, Financial and Accounting Services
Stephanie Levy	Manager, Fund Accounting and Student Accounting
Shu Chi Liou	Supervisor, Financial Reporting and Systems
Paula Lumowa	Supervisor, Student Accounting
Angela McHugh	Supervisor, Accounts Receivable
Don Miller	Associate Director and Controller, University Corporation
Steven Montgomery	Director, Human Resource Services
Jan Olson	Investment Analyst, Financial and Accounting Services
Chea Perry	Supervisor, Student Financial Services
Judy Reyes	Manager, Accounts Payable
Martha Romero	Clerical Assistant, Parking
Sharon Roberts	Cashier, Student Health Center
Sari Small	Director, Session/Intercession Services, Extended Learning
Mary Sosa	Contracts Administrator, Purchasing
Michael Steadman	Executive Director, Extended Learning
Michael Sugar	Lieutenant, Public Safety

Emillia Tayahua	Accounting Technician, Student Health Center
Pam Vaznaian	Clerical Assistant, Parking and Transportation Services
Mika Williamson	Manager, Employment Development
Chris Xanthos	Manager, Admin and Finance, Systems and Technology
Grace Yuvienco	Manager, Financial Reporting and Systems

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the CSU 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.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls, which 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 record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

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.

C. INTERNAL CONTROL OBJECTIVES

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.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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.