## **FISMA**

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Report Number 05-12 July 17, 2006

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## **ABBREVIATIONS**

AS Associated Students of California State University, Channel Islands

CFO Chief Financial Officer
CSU California State University

CSUCI California State University, Channel Islands

EE Extended Education EO Executive Order

FISMA Financial Integrity and State Manager's Accountability Act

FY Fiscal Year

SAM State Administrative Manual SCO State Controller's Office

SUAM State University Administrative Manual TPS Transportation and Parking Services

## **EXECUTIVE SUMMARY**

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by Government Code, Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

California State University, Channel Islands (CSUCI) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Assets are safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- ▶ Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.

We visited the CSUCI campus from January 30, 2006, through March 31, 2006, and made a study and evaluation of the accounting and administrative control in effect as of March 31, 2006. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, purchasing, revolving fund, cash disbursements, fixed assets, information technology, trust funds, and PeopleSoft implementation. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, CSUCI's accounting and administrative control in effect as of March 31, 2006, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments,

unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

## **CASH RECEIPTS [6]**

Cash control weaknesses were found at the main cashier's office and at each of the three satellite cashiering areas visited. An improper segregation of duties existed at the Associated Students of CSUCI (AS), which was previously reported in the 2005 Auxiliary audit. Further, the transfer of cash receipts from the AS to main cashiering was not always performed by an AS employee or public safety officer. The cash receipts drop box at the main cashier's office was not deemed to be appropriately secured, and cash receipts were not reconciled to the revenue recorded in the general ledger at transportation and parking services (TPS) and extended education. This is a repeat finding from the prior FISMA audit for TPS. In addition, fee reconciliations were either not prepared or incomplete. The most recent application fee reconciliation prepared was for the spring 2004 semester, and the application and state university fee reconciliations were not signed and dated by the preparer and reviewer to provide accountability and to evidence timeliness of completion. Lastly, reconciliations of uncleared collections were not signed and dated by the preparer and reviewer to provide accountability and to evidence timeliness of completion. This is a repeat finding from the prior FISMA audit.

## **ACCOUNTS RECEIVABLE [10]**

The campus cost allocation plan was not current and had not been signed and dated by the chief financial officer. In addition, accounts receivable controls were inadequate. Parking citation accounts receivable were not recorded on the campus accounting records; and accounts receivable controls did not include monthly accounts receivable reconciliations of subsidiary receivables records to cash receipts and the general ledger, and the generation and use of an aged receivables report for management and follow-up of delinquent accounts. Further, policies and procedures that impact the system of internal accounting and administrative control for accounts receivable had not been fully documented. This is a repeat finding from the prior FISMA audit.

## **PURCHASING** [12]

Open purchase orders were not always timely investigated and resolved. A review of the open purchase order report as of January 31, 2006, showed 75 open purchase orders dated from July 2003 through February 2005 with remaining funds totaling approximately \$167,000.

## **REVOLVING FUND [13]**

Change and purchase funds were not always counted at the prescribed frequency. A review of five required quarterly counts for nine change and purchase funds disclosed that one count was missed for all nine funds and two counts were missed for three funds. This is a repeat finding from the prior FISMA audit. In addition, although compliance with salary advance requirements appeared to be adequate, the general ledger reflected inaccurate salary advance balances.

## **CASH DISBURSEMENTS [14]**

Long-outstanding checks were not processed in a timely manner. A review of the most recent list of outstanding checks for June 2005 disclosed 62 checks older than one year totaling \$86,563, including one check from 2002.

## FIXED ASSETS [15]

Administration of fixed assets did not ensure that property was properly accounted for, identified, and recorded. This is a repeat finding from the prior FISMA audit. A physical count of all property had not been made and reconciled to the general ledger, identification tags were not being attached to campus property, and inventory was not maintained of sensitive equipment valued less than \$5,000. Further, during the past two years, acquisitions and dispositions were only recorded during the last quarter of the fiscal year. Additionally, home use permits were not issued and recorded for off-campus use of university equipment, and policies and procedures that impact the system of internal accounting and administrative control for fixed assets had not been fully documented.

## **INFORMATION TECHNOLOGY [17]**

The computer room did not have intrusion detection devices to effectively detect unauthorized access during non-business hours.

## TRUST FUNDS [18]

Trust fund administration required improvement. Campus trust fund agreements were vague with respect to identifying the approving authorities over trust fund expenditures and policies and procedures that impact the system of internal accounting and administrative control for trust funds had not been fully documented.

## **PEOPLESOFT IMPLEMENTATION [19]**

Certain reconciliations were not prepared and/or complete. A review of various reconciliations in March 2006 disclosed that the most recent revolving fund and bank/State Controller's Office (SCO) reconciliations were for June 2005 and were not dated to evidence the timeliness of completion. The issue with the bank/SCO reconciliation was a repeat finding from the prior FISMA audit.

## INTRODUCTION

# **PURPOSE**

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

- Lash 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 and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

# **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2004/05 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 2004 to December 2005. Our primary focus was on internal controls. Specifically, we reviewed and tested:

#### INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of 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 accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ Procedures for initiating, evaluating, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond March 31, 2006. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

# OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

## **CASH RECEIPTS**

#### MAIN AND SATELLITE CASHIERING

Cash control weaknesses were found at the main cashier's office and at each of the three satellite cashiering areas visited.

The satellite cashiering locations visited included transportation and parking services (TPS), extended education (EE), and the Associated Students of California State University, Channel Islands (AS).

## **Segregation of Duties**

At the AS, the interim director of student leadership and development performed all duties and responsibilities related to cashiering and the deposit of cash receipts. This was previously reported in our 2005 Auxiliary audit.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the California State University system. Section 8.9.1, Cash, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The general accounting manager and the interim director of student leadership and development stated that current staffing levels limited the ability to adequately segregate each of the functions. They added that the situation had been corrected in 2005, but a change in staff necessitated that the interim director of student leadership and development assume all cash receipt duties.

## **Safety of Funds**

Cash receipts were not always adequately safeguarded.

#### We found that:

- ▶ At the main cashier's office, the cash receipts drop box was a lockable metal box externally attached to a wall that was located in a high traffic public hallway outside of the cashiering location. Additionally, the box did not appear to be sufficiently secured.
- ▶ At the AS, the transfer of cash receipts to main cashiering was not always performed by an AS employee or public safety officer. We were told that the individual from the student sorority organization who dropped off cash receipts at the AS was occasionally the same individual who delivered the AS deposit to main cashiering.

State Administrative Manual (SAM) §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

SAM §20050 states that internal accounting controls comprise the methods and procedures directly associated with safeguarding assets.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that access to assets be limited to authorized personnel who require these assets in the performance of their assigned duties.

The general accounting manager stated that the drop box was installed per the manufacturer's instructions. The interim director of student leadership and development stated that cash receipts were transferred by non-AS employees due to limited manpower.

#### **Revenue Reconciliation**

At TPS and EE, cash receipts were not reconciled to the revenue recorded in the general ledger. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit for TPS.

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications.

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

The general accounting manager stated that the revenues were not reconciled to the general ledger due to the limited manpower.

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

#### Recommendation 1

We recommend that the campus:

- a. Review cashiering activities at the AS and take appropriate action to either segregate duties or establish effective mitigating controls, and ensure that transfers of cash receipts are only performed by an AS employee or public safety officer.
- b. Reinstall the cash receipts drop box at the main cashier's office such that the box would be inside the office with a mail slot feature in the wall.

c. Establish and implement procedures to reconcile cash receipts to revenue recorded in the general ledger at TPS and EE.

#### **Campus Response**

- a. We concur. New support staff has recently been added to the AS office, allowing for better segregation of duties. Because of the size of the campus, we acknowledge that we could be in a similar limited resource position during the coming year. While the campus will continue to make risk management a high priority, the campus is also willing to accept the potential risk associated with the cash receipts activity in the AS. An ongoing review of staff in the AS office will be implemented immediately.
- b. We concur. A work order has been opened with the operations, plant and equipment department and they will change the mounting to inside of the cashier's office, with only the slot exposed to the hallway. Work estimated to be completed by the first quarter of fiscal year (FY) 2006/07.
- c. We concur. Accounting is working with both TPS and EE to establish a monthly reconciliation process and format that is appropriate for each office. We will have the process and format established in time to reconcile July 2006 within 30 days after close. This reconciliation is listed on the accounting month-end closing schedule.

#### FEE RECONCILIATIONS

Fee reconciliations were either not prepared or incomplete.

#### We found that:

- ▶ The most recent application fee reconciliation was for the spring 2004 semester. In addition, the reconciliation was not signed and dated to provide accountability and to evidence timeliness of completion.
- ▶ State university fee reconciliations were not signed and dated by the preparer and reviewer to provide accountability and to evidence timeliness of completion.

State University Administrative Manual (SUAM) §3825.01 requires that a reconciliation of applications for admission to fees received be prepared one month after the end of the academic term being reconciled.

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

The general accounting manager stated that application fee reconciliations were not performed timely due to the lack of a tracking mechanism in the admissions and records office for fee waivers.

She added that limited resources and higher priorities made it difficult to keep focus on resolving this issue. She further stated that the lack of signatures and dates was an oversight.

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

#### **Recommendation 2**

We recommend that the campus:

- a. Reconcile application fees received within one month after the end of the academic term being reconciled.
- b. Require that application and state university fee reconciliations be signed and dated by the preparer and reviewer.

## **Campus Response**

- a. We concur. During the time period audited, we did not have a tracking mechanism in place for calculating the application fees. However, we believe the tracking process in PeopleSoft is now accurately tracking waivers. Reconciliations have now been prepared for fall 2005 and spring 2006. Future reconciliations will be prepared no later than one month after the end of the academic term.
- b. We concur. A reminder e-mail has been sent to the accounting and budget staff to have all reconciliations both signed and dated by the preparer and the reviewer.

#### **UNCLEARED COLLECTIONS**

Reconciliations of uncleared collections were not signed and dated by the preparer and reviewer to provide accountability and to evidence the timeliness of the reconciliation. This is a repeat finding from the prior FISMA audit.

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

The general accounting manager stated that the lack of signatures and dates was an oversight.

Failure to prepare reconciliations in a complete manner compromises accountability.

#### **Recommendation 3**

We recommend that the campus strengthen procedures to ensure that reconciliations of uncleared collections are signed and dated by the preparer and reviewer.

## **Campus Response**

We concur. A reminder e-mail has been sent to the accounting and budget staff to have all reconciliations both signed and dated by the preparer and the reviewer.

#### **ACCOUNTS RECEIVABLE**

#### COST ALLOCATION PLAN

The campus cost allocation plan was not current and had not been signed and dated by the chief financial officer (CFO).

Executive Order (EO) 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that auxiliary enterprises shall be charged the allowable direct costs plus and allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the General Fund. Costs allocations shall be determined in accordance with a written cost allocation plan approved annually by the campus CFO.

The general accounting manager stated that the campus allocation plan was not updated for FY 2005/06 due to limited manpower and the lack of the CFO's signature was an oversight.

The absence of an approved cost allocation plan increases the risk that the General Fund is not fully compensated for support provided to auxiliary enterprises.

## **Recommendation 4**

We recommend that the campus update its cost allocation plan, including CFO approval in advance of each FY.

## **Campus Response**

We concur. Both the campus overarching plan and the FY 2006/07 plan were signed the end of May.

## **ACCOUNTS RECEIVABLE CONTROLS**

Accounts receivable controls were inadequate.

We found that:

▶ Valid accounts receivables were not always recorded. A parking citation control account total had not been established on the campus accounting records. At March 2006, TPS outstanding parking citations totaled approximately \$48,000.

- Accounts receivable controls did not include monthly accounts receivable reconciliations of subsidiary receivables records to cash receipts and the general ledger, and the generation and use of an aged receivables report for management and follow-up of delinquent accounts.
- ▶ Policies and procedures that impact the system of internal accounting and administrative control for accounts receivable had not been fully documented. For example, policies and procedures had not been documented for the monitoring of accounts receivable, collection of delinquent third-party and auxiliary receivables, and accounts receivable reconciliations. This is a repeat finding from the prior FISMA audit.

SAM §8776 states that an accounts receivable is defined as a claim against a person, firm, corporation, or other entity for money owed to the state.

SAM §8776.2 states that a valid accounts receivable is a receivable which is due and payable and for which there is no apparent disagreement over the validity of the claim or the amount at the time it was established.

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications.

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

SUAM §3822 states that, each campus will establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including a sequence of three collection letters at 30-day intervals with a progressively stronger tone and specific requirements for filing applications for Discharge From Accountability (form STD. 27) with the State Controller's Office (SCO).

The general accounting manager stated that accounting was unaware of the TPS receivable and accounts receivable controls had not been developed due to limited manpower.

Inadequate control over accounts receivables increases the risk that receivables will not be properly controlled and reflected in campus financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

#### **Recommendation 5**

We recommend that the campus:

a. Record outstanding parking citation receivables on the campus accounting records and regularly reconcile subsidiary detail records to that control total.

- b. Establish and implement procedures to reconcile accounts receivable subsidiary records to cash receipts and the general ledger.
- c. Produce and use an aged accounts receivable report on a regular basis in its management and follow-up of delinquent accounts.
- d. Establish and implement policies and procedures for accounts receivable, specifically for the monitoring of accounts receivable, collection procedures for delinquent third-party and auxiliary receivables, and accounts receivable reconciliations.

## **Campus Response**

- a. We concur. The outstanding parking citations were recorded for FY 2005/06. Campus financial entries required to bring the receivables balance current each month is now a required task on the accounting month-end closing schedule.
- b. We concur. A campus accounts receivable reconciliation procedure will be prepared by the end of the first quarter of FY 2006/07, requiring reconciliation to both cash receipts and the general ledger.
- c. We concur. An aged accounts receivable report has been developed and will be produced and reviewed on a monthly basis to monitor delinquent accounts.
- d. We concur. A miscellaneous accounts receivable procedure has been drafted that will be used to monitor miscellaneous accounts receivable through collection. This process will be implemented by the end of the first quarter of FY 2006/07.

#### **PURCHASING**

Open purchase orders were not always timely investigated and resolved.

Our review of the open purchase order report as of January 31, 2006, showed 75 open purchase orders dated from July 2003 through February 2005 with remaining funds totaling approximately \$167,000.

SAM §8422.20 states the agency shall develop procedures to follow-up on open purchase documents/contracts to determine whether all goods and services ordered are actually received.

SAM §20050 states that the elements of a satisfactory system of accounting and administrative control shall include, in part, recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures, and an effective system of internal review.

The procurement and support manager stated that long-outstanding encumbrances were not reviewed and closed in a timely manner due to limited manpower.

Failure to investigate and resolve long-outstanding encumbered purchase orders could impair budget analysis and planning and result in less than optimal decision making.

#### **Recommendation 6**

We recommend that the campus establish monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

## **Campus Response**

We concur. The campus has reestablished monitoring procedures to ensure that open purchase orders are processed or otherwise resolved in a timely manner.

#### **REVOLVING FUND**

## **CHANGE AND PURCHASE FUNDS**

Change and purchase funds were not always counted at the prescribed frequency. This is a repeat finding from the prior FISMA audit.

Our review of five required quarterly counts for nine change and purchase funds disclosed that one count was missed for all nine funds and two counts were missed for three funds.

SAM §8111.2 requires that change or petty cash funds in the amounts of \$200.01 to \$500 will be counted on a quarterly basis.

The general accounting manager stated that change and purchase funds were not counted at the prescribed frequency due to limited manpower.

Inadequate administration of change and purchase funds increases the risk of loss and inappropriate use of state resources.

#### **Recommendation 7**

We recommend that the campus strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.

## **Campus Response**

We concur. In addition to staffing this responsibility to a new accountant hired during the spring, the task is also listed on the accounting month-end closing schedule.

#### SALARY ADVANCES

Although compliance with salary advance requirements appeared to be adequate, the general ledger reflected inaccurate salary advance balances.

We found that all 12 salary advances reviewed had been resolved; however, positive or negative balances continued to be reflected in the general ledger.

SAM §20050 states internal accounting controls comprise the methods and procedures directly associated with assuring the reliability of accounting data. Further, the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The general accounting manager stated that the general ledger reflected inaccurate salary advance balances due to limited manpower.

Inaccurate salary advance balances result in inaccurate and unreliable accounting data.

#### **Recommendation 8**

We recommend that the campus investigate and resolve the differences between salary advance balances recorded in the general ledger with those recorded in the payroll salary advance records.

#### **Campus Response**

We concur. The salary advance account and payroll receivable accounts were reviewed prior to closing and needed adjustments were recorded. The collection of these receivables, when they fall to the agency, has been assigned to a recently hired accountant. This activity will be monitored monthly per the accounting month-end closing schedule.

#### CASH DISBURSEMENTS

Long-outstanding checks were not processed in a timely manner.

We reviewed the most recent list of outstanding checks for June 2005 and noted 62 checks older than one year totaling \$86,563, including one check from 2002.

SAM §8042 states that checks have a one-year period of negotiability, unless specific provisions of law require cancellation in a different period of time. Further, agencies will send a stop payment request form to the State Treasurer's Office for all uncashed checks timed to arrive at least one week prior to the end of the one-year period of negotiability.

The general accounting manager stated that the long-outstanding checks were not processed in a timely manner due to limited manpower.

Failure to process long-outstanding checks increases the risk of misappropriation and requires additional effort to review outstanding checks during the reconciliation process.

#### **Recommendation 9**

We recommend that the campus promptly process the noted long-outstanding checks and establish procedures to ensure that future long-outstanding checks are processed in a timely manner.

## **Campus Response**

We concur. The campus has investigated the options available for processing outstanding checks, including escheating. This project will be completed by the end of the first quarter of FY 2006/07 and will be maintained on a quarterly basis going forward.

## **FIXED ASSETS**

Administration of fixed assets did not ensure that property was properly accounted for, identified, and recorded.

#### We found that:

- ▶ A physical count of all property had not been made and reconciled to the general ledger. This is a repeat finding from the prior FISMA audit.
- ▶ Identification tags were not being attached to campus property. This is a repeat finding from the prior FISMA audit.
- ▶ During the past two years, acquisitions and dispositions were only recorded during the last quarter of the FY.
- Inventory was not maintained of sensitive equipment valued less than \$5,000.
- ▶ Home use permits were not issued and recorded for off-campus use of university equipment.

▶ Policies and procedures that impact the system of internal accounting and administrative control for fixed assets had not been fully documented. For example, policies and procedures had not been documented for accounting for property acquisitions; lost, stolen, or destroyed property; identification and tagging; physical inventories; and property reconciliations. This is a repeat finding from the prior FISMA audit.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

SAM §7924 requires that departments reconcile property at least quarterly or monthly, depending upon the volume of property transactions. Agencies will reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

SAM §8650 indicates that the property records for each property acquisition include date acquired, property description, property identification number, cost or other basis of valuation, owner fund, and rate of depreciation, if applicable. Property records shall include both capitalized and non-capitalized property.

SAM §8651 indicates that all state property will be tagged after acquisition.

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

SAM §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are non-existent.

The general accounting manager stated that a shortage of staff, including an open property clerk position, did not enable the campus to address property controls.

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

## **Recommendation 10**

We recommend that the campus:

- a. Make a physical count of all property and reconcile the count with accounting records at least once every three years.
- b. Attach an identification tag to all property.
- c. Record all acquisitions and dispositions in a timely manner.
- d. Develop and maintain a property register for acquisitions of non-capitalized property valued less than \$5,000.

- e. Establish and implement procedures for utilization of home use permits for off-campus use of university equipment.
- f. Establish and implement policies and procedures for fixed assets, specifically for accounting for property acquisitions; lost, stolen, or destroyed property; identification and tagging; physical inventories; and property reconciliations.

## **Campus Response**

- a. We concur with the recommendation, but are still unable to implement until a property clerk is recruited and trained. In order to jump-start the program, we will do an internal staff reassignment that can begin this process while the recruitment and training is going on. We will then pull lists of the equipment reported on the general ledger and attempt to locate them on campus. Our goal is to complete the full list within a year. We would begin in the first quarter of FY 2006/07 by parsing the equipment records into manageable sections to be reviewed each month. If the task is too formidable, we will bring in outside help to conduct the inventory.
- b. We concur with the recommendation, but are still unable to implement until a property clerk is recruited and trained. In order to jump-start the program, we will do an internal staff reassignment that can begin this process while the recruitment and training are going on. We intend to have a tagging system in place by the second quarter of FY 2006/07.
- c. We concur. Capital asset tracking will be performed on a monthly basis, per the accounting month end close schedule.
- d. We concur with the recommendation, but are still unable to implement until a property clerk is recruited and trained. In order to jump-start the program, we will do an internal staff reassignment that can begin this process while the recruitment and training are going on. Such a register will be created concurrent with the physical inventory in item 10a above.
- e. We concur. The procedure will be completed by the end of the first quarter of FY 2006/07 and rolled out to the campus during the second quarter of FY 2006/07.
- f. We concur. The procedure will be completed by the end of the first quarter of FY 2006/07.

## INFORMATION TECHNOLOGY

The computer room did not have intrusion detection devices to effectively detect unauthorized access during non-business hours.

SAM §4842.2 requires each state agency to establish and maintain physical security measures that provide for management control of physical access to information assets. Physical security practices

for each facility must be adequate to protect the most sensitive information technology application housed in that facility.

The director of information management stated that after hour security provisions had not been addressed as part of the recent data center expansion.

Ineffective security controls over access to the data center could increase the risk of accidental or malicious damage or theft to equipment and data that is essential to the continued operation of the campus.

#### **Recommendation 11**

We recommend that the campus consider implementing physical intrusion detection devices to monitor access to the data center during non-business hours.

#### **Campus Response**

We concur. The campus installed intrusion devices during the fourth quarter of FY 2005/06.

## **TRUST FUNDS**

Trust fund administration required improvement.

We found that:

- ▶ Campus trust fund agreements were vague with respect to identifying the approving authorities over trust fund expenditures. We found that all ten trust fund agreements reviewed did not clearly identify the specific persons authorized to withdraw or expend funds.
- ▶ Policies and procedures that impact the system of internal accounting and administrative control for trust funds had not been fully documented. For example, policies and procedures had not been documented for trust fund administration, including trust fund expenditures, monitoring of trust project balances, and the need for project budgets.

SAM §19420 requires that each trust account established be supported by documentation which includes the persons authorized to withdraw or expend funds.

SAM §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are non-existent.

The general accounting manager stated that the campus was unaware that it was required to specifically identify each approving authority for trust fund expenditures. She further stated that the campus had relied on the same formal signature delegation used across the campus for all

expenditure approvals; however, upon reviewing the language used for authorizing expenditures, within the fund agreement itself, it was noted that the language was vague and has been changed. She added that the lack of a formal campus written procedure was attributed to limited manpower.

Insufficient control over trust funds, including the failure to clearly identify specific individuals with approving authority over trust expenditures, increases campus exposure to loss from inappropriate acts.

#### **Recommendation 12**

We recommend that the campus revise the trust fund agreements to clearly define the specific persons authorized to withdraw or expend funds, and develop and distribute appropriate policies and procedures for trust fund administration.

## **Campus Response**

We concur. The wording has been changed and is more in line with the recommended text. The trust fund agreement procedure will be completed during the first quarter of FY 2006/07.

## PEOPLESOFT IMPLEMENTATION

Certain reconciliations were not prepared and/or complete.

During our review of various reconciliations in March 2006, we noted that:

- ▶ The most recent revolving fund reconciliation was for June 2005. In addition, the June 2005 reconciliation was not dated to evidence the timeliness of completion.
- ▶ The most recent bank/SCO expense reconciliation was for June 2005. In addition, the June 2005 bank/SCO reconciliation was not dated to evidence the timeliness of the reconciliation. This is a repeat finding from the prior FISMA audit.

SAM §7920 requires a reconciliation of two or more accounts or other record kept by an agency such as reconciliation of office revolving fund assets to the amount withdrawn.

SAM §7901 requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7923 requires departments reconcile their end-of-the-month bank and centralized State Treasury system account balances monthly.

SAM §8060 states that all bank and centralized State Treasury system accounts will be reconciled promptly at the end of each month.

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

The general accounting manager stated that the delay in producing the reconciliations was due to setbacks resulting from the PeopleSoft conversion, and the lack of dates indicating completion was an oversight.

Untimely and incomplete reconciliations limit the campus' ability to detect errors and irregularities and compromises accountability.

## **Recommendation 13**

We recommend that the campus strengthen procedures to ensure that revolving fund and bank/SCO reconciliations are prepared in a timely and complete manner.

## **Campus Response**

We concur. The revolving fund reconciliation has been assigned to the accounts payable lead and the bank reconciliations have been assigned to a new staff accountant hired during the spring. These reconciliations are also listed on the accounting month-end closing schedule.

# **APPENDIX A:** PERSONNEL CONTACTED

**Name Title** 

Richard R. Rush President

Raudel Banuelos Assistant Director, Grounds and Garage

Payroll Supervisor Jacinta Bastone

Vice President, Finance and Administration Joanne Coville

**Emily Deakin** Manager, General Accounting

Marc DuBransky Systems Administrator Programmer Analyst Neal Fisch

Director of Extended Education Mary Fleck

Theresa Hernandez Accountant

Nancy Hill **Accounting Supervisor** 

Vicki Kersten Storekeeper II

Leah Kirklin Manager, Procurement and Support Manager, Internal and External Reporting Melissa Klep Director, Information Management

Mike Leathers

Accounting Supervisor Melanio Lorenzo

Business Services Analyst, Transportation and Parking Colleen Mitchell

Anna Pavin Human Resources Administrator

Interim Director of Student Leadership and Development Toni Rice

Louise Siefert Accounts Payable Lead

Executive Assistant to the Vice President, Finance and Administration Rhonda Tyacke

Leticia Vargas Cashier

#### STATEMENT OF INTERNAL CONTROLS

## A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

#### **B. INTERNAL CONTROL DEFINITION**

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

## 1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, 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.



Division of Finance and Administration

August 3, 2006

Mr. Larry Mandel University Auditor 401 Golden Shore, 4<sup>th</sup> Floor Long Beach, CA 90802-4200 AUG 3 2006

THE CALIFORNIA STATE UNIVERSITY

Dear Larry:

On behalf of President Rush, I am submitting the campus revised response to the recommendations of Audit Report 05-12, FISMA at California State University Channel Islands. This response has also been forwarded via email to <a href="mailto:adouglas@calstate.edu">adouglas@calstate.edu</a>.

Please contact me for additional information and follow up.

Very truly yours,

Joanne Coville

Vice President for Finance and Administration

JC/rt Enclosure

cc: President Richard Rush

Emily Deakin, Manager, General Accounting

Missy Klep, Manager, Budget and Internal & External Reporting

#### **FISMA**

## CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Report Number 05-12 July 17, 2006

#### CASH RECEIPTS

#### MAIN AND SATELLITE CASHIERING

## **Recommendation 1**

We recommend that the campus:

- a. Review cashiering activities at the AS and take appropriate action to either segregate duties or establish effective mitigating controls, and ensure that transfers of cash receipts are only performed by an AS employee or public safety officer.
- b. Reinstall the cash receipts drop box at the main cashier's office such that the box would be inside the office with a mail slot feature in the wall.
- c. Establish and implement procedures to reconcile cash receipts to revenue recorded in the general ledger at TPS and EE.

#### **Campus Response**

- a. We concur. New support staff has recently been added to the ASI office, allowing for better segregation of duties. Because of the size of the campus, we acknowledge that we could be in a similar limited resource position during the coming year. While the campus will continue to make risk management a high priority, the campus is also willing to accept the potential risk associated with the cash receipts activity in ASI. An on-going review of staff in the ASI office will be implemented immediately.
- b. We concur. A work order has been opened with the Operations, Plant and Equipment department and they will change the mounting to inside of the Cashier's office, with only the slot exposed to the hallway. Work estimated to be completed by 1st quarter FY0607.
- c. We concur. Accounting is working with both TPS and EE to establish a monthly reconciliation process and format that is appropriate for each office. We will have the process and format established in time to reconcile July 2006 within 30 days after close. This reconciliation is listed on the Accounting month end closing schedule.

#### FEE RECONCILIATIONS

#### Recommendation 2

We recommend that the campus:

- a. Reconcile application fees received within one month after the end of the academic term being reconciled.
- b. Require that application and state university fee reconciliations be signed and dated by the preparer and reviewer.

## Campus Response

- a. We concur. During the time period audited, we did not have a tracking mechanism in place for calculating the application fees. However, we believe the tracking process in PeopleSoft is now accurately tracking waivers. Reconciliations have now been prepared for Fall 05 and Spring 06. Future reconciliations will be prepared no later than one month after the end of the academic term.
- b. We concur. A reminder email has been sent to the Accounting and Budget staff to have all reconciliations both signed and dated by the preparer and the reviewer.

## **UNCLEARED COLLECTIONS**

#### **Recommendation 3**

We recommend that the campus strengthen procedures to ensure that reconciliations of uncleared collections are signed and dated by the preparer and reviewer.

#### **Campus Response**

We concur. A reminder email has been sent to the Accounting and Budget staff to have all reconciliations both signed and dated by the preparer and the reviewer.

## **ACCOUNTS RECEIVABLE**

## **COST ALLOCATION PLAN**

#### **Recommendation 4**

We recommend that the campus update its cost allocation plan, including CFO approval in advance of each FY.

## **Campus Response**

We concur. Both the campus overarching plan and the fiscal 06/07 plan were signed the end of May.

## **ACCOUNTS RECEIVABLE CONTROLS**

#### Recommendation 5

We recommend that the campus:

- a. Record outstanding parking citation receivables on the campus accounting records and regularly reconcile subsidiary detail records to that control total.
- b. Establish and implement procedures to reconcile accounts receivable subsidiary records to cash receipts and the general ledger.
- c. Produce and use an aged accounts receivable report on a regular basis in its management and follow-up of delinquent accounts.
- d. Establish and implement policies and procedures for accounts receivable, specifically for the monitoring of accounts receivable, collection procedures for delinquent third-party and auxiliary receivables, and accounts receivable reconciliations.

## **Campus Response**

- a. We concur. The outstanding parking citations were recorded for FY05/06. Campus financial entries required to bring the receivables balance current each month is now a required task on the Accounting month end closing schedule.
- b. We concur. A campus accounts receivable reconciliation procedure will be prepared by the end of 1st quarter FY0607 requiring reconciliation to both cash receipts and the general ledger.
- c. We concur. An aged accounts receivable report has been developed and will be produced and reviewed on a monthly basis to monitor delinquent accounts.
- d. We concur. A miscellaneous accounts receivable procedure has been drafted that will be used to monitor miscellaneous accounts receivable through collection. This process will be implemented by end of 1st quarter FY0607.

#### **PURCHASING**

#### Recommendation 6

We recommend that the campus establish monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

#### **Campus Response**

We concur. The campus has re-established monitoring procedures to ensure that open purchase orders are processed or otherwise resolved in a timely manner.

## **REVOLVING FUND**

## **CHANGE AND PURCHASE FUNDS**

#### Recommendation 7

We recommend that the campus strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.

#### **Campus Response**

We concur. In addition to staffing this responsibility to a new accountant hired during the Spring, the task is also listed on the Accounting month end closing schedule.

#### SALARY ADVANCES

#### **Recommendation 8**

We recommend that the campus investigate and resolve the differences between salary advance balances recorded in the general ledger with those recorded in the payroll salary advance records.

#### **Campus Response**

We concur. The salary advance account and payroll receivable accounts were reviewed prior to closing and needed adjustments were recorded. The collection of these receivables, when they fall to the agency, has been assigned to a recently hired accountant. This activity will be monitored monthly per the Accounting month end closing schedule.

## **CASH DISBURSEMENTS**

#### **Recommendation 9**

We recommend that the campus promptly process the noted long-outstanding checks and establish procedures to ensure that future long-outstanding checks are processed in a timely manner.

## **Campus Response**

We concur. The campus has investigated the options available for processing outstanding checks, including escheating. This project will be completed by end of the first quarter, FY0607 and will be maintained on a quarterly basis going forward.

#### **FIXED ASSETS**

#### Recommendation 10

We recommend that the campus:

- a. Make a physical count of all property and reconcile the count with accounting records at least once every three years.
- b. Attach an identification tag to all property.
- c. Record all acquisitions and dispositions in a timely manner.
- d. Develop and maintain a property register for acquisitions of non-capitalized property valued less than \$5,000.
- e. Establish and implement procedures for utilization of home use permits for off-campus use of university equipment.
- f. Establish and implement policies and procedures for fixed assets, specifically for accounting for property acquisitions; lost, stolen, or destroyed property; identification and tagging; physical inventories; and property reconciliations.

## **Campus Response**

- a. We concur with the recommendation but are still unable to implement until a Property Clerk is recruited and trained. In order to jump-start the program, we will do an internal staff reassignment that can begin this process while the recruitment and training is going on. We will then pull lists of the equipment reported on the general ledger and attempt to locate on campus. Our goal is to complete the full list within a year. We would begin in the first quarter of fiscal year 2006-07 by parsing the equipment records into manageable sections to be reviewed each month. If the task is too formidable, we will bring in outside help to conduct the inventory.
- b. We concur with the recommendation but are still unable to implement until a Property Clerk is recruited and trained. In order to jump-start the program, we will do an internal staff reassignment that can begin this process while the recruitment and training is going on. We intend to have a tagging system in place by the second quarter of fiscal year 2006-07.
- c. We concur. Capital asset tracking will be performed on a monthly basis, per the Accounting month end close schedule.
- d. We concur with the recommendation but are still unable to implement until a Property Clerk is recruited and trained. In order to jump-start the program, we will do an internal staff reassignment that can begin this process while the recruitment and training is going on. Such a register will be created concurrent with the physical inventory in item 10a above.
- e. We concur. The procedure will be completed by the end of first quarter FY0607 and rolled out to the campus during the second quarter FY0607.

f. We concur. The procedure will be completed by the end of the first quarter FY0607.

## INFORMATION TECHNOLOGY

#### **Recommendation 11**

We recommend that the campus consider implementing physical intrusion detection devices to monitor access to the data center during non-business hours.

## **Campus Response**

We concur. The campus installed intrusion devices during the fourth quarter of FY0506.

## **TRUST FUNDS**

#### **Recommendation 12**

We recommend that the campus revise the trust fund agreements to clearly define the specific persons authorized to withdraw or expend funds, and develop and distribute appropriate policies and procedures for trust fund administration.

## **Campus Response**

We concur. The wording has been changed and is more in line with the recommended text. The trust fund agreement procedure will be completed during the first quarter FY0607.

## PEOPLESOFT IMPLEMENTATION

#### **Recommendation 13**

We recommend that the campus strengthen procedures to ensure that revolving fund and bank/SCO reconciliations are prepared in a timely and complete manner.

## **Campus Response**

We concur. The revolving fund reconciliation has been ASSIGNED to the accounts payable lead and the bank reconciliations have been ASSIGNED to a new staff accountant hired during the spring. These reconciliations are also listed on the accounting month end closing schedule.

# THE CALIFORNIA STATE UNIVERSITY OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 31, 2006

**CHANNEL ISLANDS** 

CHICO

**MEMORANDUM** DOMINGUEZ HILLS

EAST BAY

**FRESNO** 

TO:

**FULLERTON** 

FROM:

HUMBOLDT

LONG BEACH

SUBJECT:

Charles B. Reed Chancellor Draft Final Report Number 05-12 on FISMA,

California State University, Channel Islands

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of August 31, 2006, I accept the response as submitted with the draft final report on FISMA, California State University, Channel Islands.

NORTHRIDGE

**POMONA** 

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

Ms. Joanne M. Coville, Vice President for Finance and Administration cc:

Dr. Richard R. Rush, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

**STANISLAUS**