

CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

Audit Report

STUDENT FEE REVENUES

July 1, 2007, through September 30, 2008



JOHN CHIANG
California State Controller

December 2009



JOHN CHIANG
California State Controller

December 18, 2009

Dianne F. Harrison, Ph.D., President
California State University, Monterey Bay
100 Campus Center
Seaside, CA 93955-8001

Dear Dr. Harrison:

The State Controller's Office (SCO) audited the California State University, Monterey Bay's expenditure of student fee revenues for the period of July 1, 2007, through September 30, 2008.

The SCO is in the process of evaluating the expenditures of selected campuses within the California State University (CSU) system. Each campus will be audited separately because, while most of the campuses and the Chancellor's Office use the same accounting system and abide by some of the same system-wide policies, each campus is operated autonomously and has its own system of internal controls. When we have concluded the audits of the selected campuses, we will combine the individual reports into one final report.

Our audit disclosed an internal control deficiency or weakness that we consider significant in our determination of whether the campus has adequately accounted for and expended student fee revenues in accordance with applicable campus, CSU system-wide, and state policies and procedures. This significant weakness is the lack of segregation in the accounts payable technicians' duties, which include inputting, authorizing, and printing checks, and subsequently reviewing the printed checks.

If you have any questions, please contact Andrew Finlayson Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: John Fitzgibbon, Associate Vice President of Finance
California State University, Monterey Bay
William P. Musselman, CPA, Director of Accounting
California State University, Monterey Bay
Larry Mandel, University Auditor
California State University
George Ashkar, Interim Assistant Vice Chancellor,
Controller, Financial Services
Office of the Chancellor
California State University

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Audit Report

Summary

The State Controller's Office (SCO) has audited the California State University, Monterey Bay's expenditures of the student fee revenues for the period of July 1, 2007, through September 30, 2008.

The SCO is in the process of evaluating the expenditures of selected campuses within the California State University (CSU) system. Each campus will be audited separately because, while most of the campuses and the Chancellor's Office use the same accounting system and abide by some of the same system-wide policies, each campus is operated autonomously and has its own system of internal controls. When we have concluded the audits of the selected campuses, we will combine the individual reports into one final report.

The purpose of our audit was to determine whether the campus has an accounting system and internal controls in place to ensure that the expenditures of student fee revenues are adequately accounted for and are properly expended in accordance with applicable campus, CSU system-wide, and state policies and procedures.

Our audit disclosed an internal control deficiency or weakness that we consider significant in our determination of whether the campus has adequately accounted for and expended student fee revenues in accordance with applicable campus, CSU system-wide, and state policies and procedures. This significant weakness is the lack of segregation in the accounts payable technicians' duties, which include inputting, authorizing, and printing checks, and subsequently reviewing the printed checks.

Background

On July 19, 2006, Education Code section 89721 (AB 1802) was approved, permitting individual CSU campuses to deposit into and maintain local trust accounts and deposit into the accounts money collected as income from students from any CSU campus and from other persons pursuant to Education Code section 89700. Pursuant to Education Code section 89721, the SCO shall have the authority to audit the expenditure of moneys collected as higher education fees and income from students of any campus of the California State University and from other persons pursuant to Education Code section 89700.

By authority of the California Constitution, Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment." In addition, Government Code section 12411 stipulates that "... the Controller shall suggest plans for the improvement and management of revenues."

In addition, the SCO and the CSU Chancellor's Office entered into an inter-agency agreement wherein the SCO will perform audits at various campus of the Student Fee Revenues Trust Fund.

Objectives, Scope, and Methodology

The objective of this performance audit was to determine whether the university has an accounting system and internal controls in place to ensure that the expenditures of student fee revenues are adequately accounted for and are properly expended in accordance with applicable campus, CSU system-wide, and state policies and procedures.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In conducting our audit, we:

- Gained an understanding of the campus's policies and procedures related to the expenditure of student fees and evaluated whether the campus's policies and procedures comply with CSU system-wide policies, applicable state policies and procedures, and sound business practices.
- Evaluated the campus's accounting and internal controls related to the expenditure of student fees by conducting on-site visits, observations, and interviews with appropriate campus personnel.
- Judgmentally selected expenditures of student fee revenues to determine whether the sampled transactions were properly approved, adequately supported, and in accordance with the campus's policies and procedures. Additionally, we reviewed each sampled transaction to determine whether the expenditures were an appropriate use of student fee revenues.

Conclusion

Our audit disclosed an internal control deficiency or weakness that we consider significant in our determination of whether the California State University, Monterey Bay has adequately accounted for and expended student fee revenues in accordance with applicable campus, CSU system-wide, and state policies and procedures. This significant weakness is the lack of segregation in the accounts payable technicians' duties, which include inputting, authorizing, and printing checks, and subsequently reviewing the printed checks.

We consider this internal control weakness significant; however, our testing does not indicate circumstances of significant occurrences of these conditions and/or that the weakness is not likely to result in a material misuse of student fee revenues. We have included details of this weakness and our recommendation for corrective action in the Finding and Recommendation section of this report.

**Views of
Responsible
Official**

We issued a draft audit report on August 31, 2009. John Fitzgibbon, Associate Vice President, responded by letter dated September 22, 2009 (Attachment), disagreeing with the audit results. This final audit report includes the campus's response.

Restricted Use

This report is solely for the information and use of the California State University, Monterey Bay; California State University, Office of the Chancellor; and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

December 18, 2009

Finding and Recommendation

**FINDING—
Lack of segregation
within the duties of
the account
payable technicians**

The campus lacks proper segregation of duties within the accounts payable function because the accounts payable technicians (AP Techs) have the ability to record payment information, reconcile payment information to support documentation, authorize checks to be printed, print checks, and reconcile the printed checks to the payment information. The current accounting process requires each payment input into the system be reviewed by a second AP Tech; however, this second control can be easily circumvented. The accounting system is not set up to require the second review to occur before checks can be printed, and there is little or no monitoring by management to ensure that the second review has occurred. Since this second review can be easily circumvented, the AP Tech has the ability to create, print, and take custody of checks without the assistance of additional campus employees.

Segregation of duties is a key concept in internal control and its primary objective is to prevent fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. In general, functions that must be separated include initiating and recording transactions, custody of assets, authorization of transactions, and reconciliation.

Recommendation

We recommend that the campus properly segregate the AP Techs' duties or institute additional compensating controls to diminish the likelihood of fraud or errors to occur.

Campus's Response

. . . We believe that the finding does not place sufficient weight on existing mitigating controls that address the segregation of duties question that arose in the course of the audit. Some of those ancillary controls are listed below:

- Posting of the approved Accounts Payable (AP) control groups is performed automatically each evening. Once posted, no changes can be made to the control group.
- Check stock is numerically controlled by non-AP staff. Check stock is logged and signed out as necessary to print checks. The key to the check printer is controlled by another non-AP staff who log the key out as necessary to print checks.
- The controls groups are numerically controlled by the finance system.
- Vendors can only be entered into the system by Procurement department staff. Accounts payable staff are excluded by the finance system from creating vendors.
- All checks over \$15,000 are reviewed and approved by management, limiting risks of any significant abnormality.

- Budgetary controls over expenditures exist at the departmental level. Departmental staff that authorize transactions are provided direct access into the finance system to run and review reports of all expenditures in their department. Budgeted expenditures are also monitored at the division and executive levels.
- Numerous audits of disbursements occur on a regular basis. These audits involve reviewing internal control structure and a sample of disbursements. Due to the volume of items reviewed, these audits serve as a considerable deterrent to bypassing controls (i.e., FISMA, GAAP, A-133).
- A stable employee base exists in Accounts Payable. Our accounts payable technicians have been with CSUMB for a minimum of seven years.

Notwithstanding, we are implementing changes to the control group review process to raise its effectiveness and further reduce risk. . .

A copy of the campus' response is included as an attachment to this report.

SCO's Comment

Contrary to the campus's position, the lack of proper segregation in the accounts payable function, in the auditor's judgment, is a significant weakness. We did not consider the mitigating controls in place during the time of our audit as sufficient and, while prior audits did not disclose any findings in the accounts payable function, that does not reduce the potential fraud or errors. We do, however, commend the campus for implementing additional controls in its review process. The finding remains unchanged.

**Attachment—
Campus's Response to
Draft Audit Report**



Finance
Mountain Hall, Suite B
100 Campus Center
Seaside, CA 93955-8001
831-582-5312
Fax 831-582-4430

September 22, 2009

Mr. Andrew Finlayson
Chief, State Agency Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

While we understand with the specific concerns addressed in the report, we believe that the internal controls in place are indicative of an adequate control environment, designed to reduce risks to an appropriate level. We believe that the finding does not place sufficient weight on existing mitigating controls that address the segregation of duties question that arose in the course of the audit. Some of those ancillary controls are listed below:

- Posting of the approved Accounts Payable (AP) control groups is performed automatically each evening. Once posted, no changes can be made to the control group.
- Check stock is numerically controlled by non-AP staff. Check stock is logged and signed out as necessary to print checks. The key to the check printer is controlled by another non-AP staff who log the key out as necessary to print checks.
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- Budgetary controls over expenditures exist at the departmental level. Departmental staff that authorize transactions are provided direct access into the finance system to run and review reports of all expenditures in their department. Budgeted expenditures are also monitored at the division and executive levels.

- Numerous audits of disbursements occur on a regular basis. These audits involve reviewing internal control structure and a sample of disbursements. Due to the volume of items reviewed, these audits serve as a considerable deterrent to bypassing controls (i.e., FISMA, GAAP, A-133).
- A stable employee base exists in Accounts Payable. Our accounts payable technicians have been with CSUMB for a minimum of seven years.

Notwithstanding, we are implementing changes to the control group review process to raise its effectiveness and further reduce risk. These changes include posting the control groups immediately upon completion of their approval. Additionally, management review of the process will be demonstrated by their initials on the control groups.

We are compelled to indicate that the SCO fee audit, along with many other audits we undergo on a regular basis, have not indicated any loss of state funds due to weak accounts payable controls. We have also performed a review of all changes to the control groups as well as all payments made directly to the two accounts payable staff that occurred during your audit window. Again, there were no indications of any improprieties.

For these reasons, we believe that the State Controller's conclusion that the finding is considered a significant weakness overstates the identified issue. We respectfully request that the finding be eliminated or, at a minimum, that the word "significant" be removed from the audit report.

Sincerely,



John Fitzgibbon
Associate Vice President

cc: President Harrison
University Auditor Mandel
Vice President Main
Director Musselman

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>