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December 19, 2018

Dr. Leslie E. Wong, President
San Francisco State University
1600 Holloway Avenue
San Francisco, CA 94132

Dear Dr. Wong:

Subject: Audit Report 18-37, Accounts Receivable, San Francisco State University

We have completed an audit of *Accounts Receivable* as part of our 2018 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

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

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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The California State University
Audit and Advisory Services

ACCOUNTS RECEIVABLE

San Francisco State University

Audit Report 18-37
November 28, 2018

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of campus operational, administrative, and financial controls related to the accounts receivable function; to evaluate adherence to the Integrated California State University Administrative Manual (ICSUAM) financial policies; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

We found the control environment for the areas reviewed to be in need of major improvement.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for accounts receivable as of September 7, 2018, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

Overall, the audit revealed that the campus was lacking documented policies and procedures to address key areas of accounts receivable and, due to a lack of resources, was not sufficiently monitoring the overall function. We found that employee account receivables were not always appropriately established and supported, salary changes were not timely entered and processed, and collection efforts were not always timely performed to facilitate collection or support account write-offs. We also found that collection efforts for third-party receivables were not timely performed, campus facility rentals were not properly administered, and student receivable collection notices were not always timely sent. These situations were mainly due to a lack of training, employee turnover, and insufficient coordination among the different areas involved in the processing of accounts receivable.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. POLICIES AND PROCEDURES

OBSERVATION

The campus had a number of established processes in place for accounts receivable; however, some of these processes had not been formally documented.

We found that the campus did not have documented policies and procedures in the following areas required by ICSUAM §3130.01, *Accounts Receivable Management*:

- Roles and responsibilities for processing of accounts receivable.
- Collection efforts applicable for each type of past-due receivable.
- Materiality thresholds below which collection efforts will not be pursued.
- A process for the determination of uncollectible accounts.
- A process for approving accounts receivable write-offs.
- A process for recording and reconciling accounts receivable balances to the general ledger.

We also found that the campus policy for the administration of third-party receivables had not been updated to reflect current practices related to the frequency of collection reminder letters.

Formal documentation of campus policies and procedures for accounts receivable provides a standard reference for stakeholders and enhances compliance with systemwide requirements.

RECOMMENDATION

We recommend that the campus:

- a. Formally document accounts receivable policies and procedures to align with systemwide requirements and address the areas noted above.
- b. Provide training and guidance to key personnel involved in the accounts receivable process on new policies and procedures.

MANAGEMENT RESPONSE

We concur.

- a. We will formally document our accounts receivable policies and procedures to comply with systemwide requirements and to address observations noted in this audit.
- b. Training will be provided to key personnel involved in the accounts receivable process to ensure policies and procedures are followed.

Expected completion date: May 28, 2019

2. EMPLOYEE ACCOUNT RECEIVABLES

OBSERVATION

Employee account receivables were not always appropriately established and supported, salary changes were not timely entered and processed, and collection efforts were not always timely performed to facilitate collection or support account write-offs.

We found that the total employee accounts receivable balance as of June 2018 was \$320,166 related to salary and benefit changes that resulted in overpayments for 480 current and separated employees. The total employee accounts receivable balance for active employees was \$159,333, and the total balance for separated employees was \$160,833. These balances dated back to transactions from October 2012.

We reviewed 20 of these employees, who combined had a receivable balance of \$82,812, and found that:

- In seven instances, salary changes were not timely entered into the Employee Transaction Relay and Capture (E-TRAC) system by departments. Specifically, we noted delays in the submission of data from departments to the talent management and compensation solutions (TMCS) unit in the human resources (HR) department. The time lapse between the date the salary change was effective and the date when the information was entered into the E-TRAC system for the seven employees ranged from 16 to 322 days.
- In eight instances, salary changes were not timely processed by TMCS. Specifically, we noted delays between the date departments entered salary changes into the E-TRAC system and the date TMCS processed the change. The time lapse between these two dates for the eight employees ranged from seven to 91 days. TMCS was expected to review the information in the E-TRAC system daily.
- In four instances, salary changes were not timely entered into the payroll system by the payroll services unit in HR. Specifically, we noted delays between the date that TMCS processed the change and the date payroll services entered the information into the payroll system. The time lapse between these two dates for the four employees ranged from 11 to 92 days.
- In six instances, payroll services had not engaged in any collection efforts to recover salary overpayments. There were no notification letters on file to indicate that these employees were notified of their outstanding obligation to the university.
- In eight instances, payroll services had not engaged in timely collection efforts to recover salary overpayments. Specifically, for seven employees, collection efforts began between 50 and 1,127 days after the receivables were created, and for one employee, collection efforts were not made after the initial notification.
- In four instances, there was inadequate documentation on file to justify the establishment of payroll receivables.
- In four instances, payroll receivables were incorrectly established.

- In two instances, payroll services either did not follow through on a repayment agreement or did not properly establish the repayment agreement. One employee agreed to repay the outstanding balance; however, payroll services did not set up the payroll deduction. The other employee verbally agreed to repay the outstanding balance; however, payroll services did not execute a written agreement specifying the method and terms of the repayment.

We also found that delinquent accounts were not referred to the Franchise Tax Board Interagency Intercept Collection Program or assigned to a third-party collection agency, as required by campus policy. As a result, the majority of write-offs in fiscal years 2017 and 2018 were due to the statute of limitations. Campuses cannot take action to recoup an overpayment unless action is initiated within three years of the date of the overpayment.

Proper administration of employee account receivables reduce the risk of overpayments and financial loss.

RECOMMENDATION

We recommend that the campus:

- a. Train key department, TMCS, and payroll services personnel on the existing and newly documented employee accounts receivable policies and procedures, including information on each area's role and responsibility.
- b. Develop and implement processes to retain records that justify the establishment of employee receivables, and properly establish and follow through on these repayment agreements.
- c. Engage in appropriate collection efforts and write off outstanding uncollectible balances.

MANAGEMENT RESPONSE

We concur.

- a. We will provide training to key department, TMCS, and payroll services personnel to ensure employee accounts receivable policies and procedures are followed. Included in this documentation and training will be roles and responsibilities for each responsible area.
- b. We will develop processes to ensure the appropriate retention of records for employee accounts receivable and properly establish and follow through on repayment agreements.
- c. We will perform appropriate collections efforts for employee accounts receivable and write off uncollectible balances in a timely manner.

Expected completion date: May 28, 2019

3. THIRD-PARTY RECEIVABLES

OBSERVATION

Collection efforts for third-party receivables were not timely performed, and campus facility rentals were not properly administered.

We found that the total third-party receivable balance as of June 2018 was \$227,885 related to campus facility rentals, extended learning course fees, and guest house and boat rentals.

We reviewed 19 third-party receivables from August 2015 to July 2018 totaling \$80,439 and found that:

- In 13 instances, the accounting office within fiscal affairs had not engaged in timely collection efforts to recover these outstanding balances. Specifically, collection reminder letters were sent from 13 to 79 days late.
- In five instances, facility rental invoices were not timely sent. They were sent between 42 and 80 days after the events.
- In five instances, payment was not made before the event. Specifically, four agreements stated that payment should be made at least ten days before the scheduled event, and one agreement included a schedule of payments with the full amount of \$59,052 due 30 days before the event. However, none of these payments were made before the event.
- In four instances, there was no agreement or contract in place for a guest house or boat rental.
- In three instances, a facility rental agreement was not timely signed by both parties. Specifically, one agreement was signed after the event, a second agreement was signed one day before the event, and a third was signed three days after the event.
- In one instance, a facility rental agreement was not signed by both parties.

Adequate control over third-party receivables increases the likelihood of collection and reduces financial loss.

RECOMMENDATION

We recommend that the campus:

- a. Develop and implement processes to timely engage in collection efforts, send invoices, collect payments according to agreement terms, and properly execute contracts or agreements.
- b. Provide training and guidance to key personnel involved in the third-party receivable process based on the updated policies and procedures.

MANAGEMENT RESPONSE

We concur.

- a. We will develop and implement procedures to perform timely collections efforts, send invoices, collect payments according to agreement terms, and ensure contracts and agreements are properly executed with regard to invoicing and collections.
- b. Key personnel will be trained and supervised to ensure policies and procedures for third-party receivables are followed.

Expected completion date: May 28, 2019

4. STUDENT RECEIVABLES

OBSERVATION

Student receivable collection notices were not always timely sent.

We found that the bursar's office sent out a batch of electronic bills (collection notices) three times during the spring and fall semesters, in 30-day intervals. In spring 2017 and spring 2018, the third batch of electronic bills was sent 24 and 12 days late, respectively. In addition, two batches of electronic bills were not sent in fall 2017.

Sending out collection notices timely for student receivables increases the likelihood of collection and reduces financial loss.

RECOMMENDATION

We recommend that the campus set reminders to timely send out collection notices for student receivables.

MANAGEMENT RESPONSE

We concur. The campus has implemented a procedure to ensure collection notices for student receivables are sent in a timely manner. A schedule for collections notices will be created on an annual basis to remind responsible individuals to send the notices.

Expected completion date: May 28, 2019

GENERAL INFORMATION

BACKGROUND

Accounts receivable audits involve the assessment of operational, administrative, and financial controls surrounding the accounts receivable process, from the establishment of the asset to collections and write-offs of uncollectible balances. Administration of accounts receivable, which includes providing accurate and timely billing and performing collection efforts on past-due accounts, is typically the responsibility of financial services or the bursar's office in the administration and finance division. The cashier's office is responsible for receiving, posting, and depositing payments. An allowance for uncollectible accounts receivable is established based on the type of outstanding accounts receivable and expectations of repayment, and accounts receivable balances determined to be uncollectible are written off based on defined criteria.

The different types of accounts receivable at universities are employee, student, and third-party receivables. Employee receivables are generated from payroll salary overpayments and salary, travel, and business expense advances. Student receivables are generated from tuition and fees and student loans. Third-party receivables are amounts receivable from a vendor or third party, usually due to overpayments, refunds, and grants. Additionally, there are other receivables related to auxiliary organizations; extended learning; and housing, parking, and student health services.

The administration of accounts receivable management activities is mainly governed by ICSUAM §3130.01, *Accounts Receivable Management*. The campus chief financial officer (CFO) or his or her delegate is responsible for implementing accounts receivable management policies consistent with ICSUAM requirements. ICSUAM requires all accounts receivable due to the university to be recorded in the general ledger. It also requires that campus procedures describe the collection efforts applicable to each type of past-due receivable and identify the materiality threshold below which collection efforts will not be pursued. Additionally, campus procedures must require that debt and accounts receivable balances determined to be uncollectible be written off by the close of the fiscal year; that the CFO approve the write-off of balances above \$10,000; and that the CFO may delegate in writing to designated person(s) the authority to approve the write-off of balances equal to or less than \$10,000.

Executive Order (EO) 1044, *CSU Student Debt Collection Practices*, requires that all third-party providers used to collect any student debt be limited to those approved through the CO selection process.

At San Francisco State University (SFSU), fiscal affairs oversees the accounting and recording of accounts receivable activities to assure that all accounts receivable policies and procedures are documented and in compliance with ICSUAM throughout the university. However, fiscal affairs is not responsible for the execution of operational activities related to accounts receivable for areas that do not report to fiscal affairs such as housing, parking, and employee accounts receivable. The proper compliance and execution of operational activities related to accounts receivable is the direct responsibility of the senior administrators in those respective areas. The bursar's office within fiscal affairs is responsible for student receivables, including tuition and fees such as health, lab, and student housing. Student loans, such as Perkins and California DREAM loans, are managed by Heartland Educational Computer Systems, Inc. (ECSI),

a student loan servicing company, and ECSI is responsible for the billing and collection of these student loans. TMCS and payroll services in HR are responsible for employee accounts receivable generated from salary overpayments. The accounts payable and fiscal services units within fiscal affairs are responsible for employee accounts receivable, including travel and other business advances, and short-term student loans. The accounting office within fiscal affairs is responsible for third-party receivables, such as extended learning fees receivables from employers or agencies, campus facility rentals, and guest house and boat rentals. Also, university housing is responsible for faculty and staff housing receivables, parking and transportation is responsible for parking citation receivables, and student health services handles the third-party receivables from Medi-Cal and pharmacy insurance companies. Many of these locations, such as the bursar's office, university housing, and parking, outsource collection activities to third-party collection agencies.

SCOPE

We visited the SFSU campus from August 7, 2018, through September 7, 2018. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2016, through September 7, 2018.

Specifically, we reviewed and tested:

- Accounts receivable management, administration, and organization, including clear lines of authority and responsibility, and the maintenance of campus accounts receivable management policies and procedures.
- Segregation of duties in the billing, collection, recording, reconciliation of accounts receivable, and approval to write off uncollectible balances.
- Write-offs of uncollectible accounts receivable, including write-off amount thresholds and delegation of authority to approve the write off of less than \$10,000.
- Periodic management review of accounts receivable aging reports.
- Reconciliation of accounts receivable transactions to the general ledger, including proper approval of adjustments.
- Student receivables, including tuition, short-term loans, and fees such as health, lab, and student housing.
- Employee payroll receivables for overpayments.
- Employee and family housing receivables.
- Parking citation receivables.
- Third-party receivables, such as receivables from events and facilities rental fees and extended learning course fees from employers or agencies.

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

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

Our testing and methodology, which was designed to provide a review of key operational, administrative, and financial controls, included walkthroughs and detailed testing on a limited number of transactions. Our review was limited to gaining reasonable assurance that essential elements of the accounts receivable administration process were in place and did not examine all aspects of accounts receivable. Specifically, our review focused on employee, student, and third-party receivables related to student tuition and fees, short-term student loans, salary and benefit changes, campus facility rentals, and employee and family housing and parking fees. Our review did not include accounts receivable related to employee travel and business advances, student health, auxiliaries, and sponsored programs.

CRITERIA

Our audit was based upon standards as set forth in California State University Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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

- State Administrative Manual §8776.6, *Miscellaneous Accounting Procedures*
- Government Code §13402 and §13403
- EO 1044, *CSU Student Debt Collection Practices*
- ICSUAM §3102.02, *Segregation of Duties*
- ICSUAM §3102.08, *Recording Deposits to the General Ledger*
- ICSUAM §3130.01, *Accounts Receivable Management*
- ICSUAM §8000, *Information Security*
- *CSU Legal Accounting and Reporting Manual*
- *CSU Business Process Guidelines for the Administration of Employee Salary Overpayments*
- SFSU Bursar's Office *Student Account Receivable Collection Cycle*
- *SFSU Payroll Accounts Receivable Collection Procedures*
- *SFSU Police Department Reconciliation of Parking Citations*

AUDIT TEAM

Audit Manager: Caroline Lee
Senior Auditor: Laura Vazquez