

**FISMA**

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,  
POMONA**

**Report Number 02-07  
March 24, 2003**

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## **ABBREVIATIONS**

Cal Poly Pomona	CSPUP
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
MetWest	Metropolitan West Securities, Inc.
SAM	State Administrative Manual
SCO	State Controller's Office
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

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## **INTRODUCTION**

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### **PURPOSE**

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

- ▶ Cash receipts are processed in accordance with laws, regulations and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled, and access to personnel 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.
- ▶ Physical computer controls are in place and functioning.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual (SUAM) guidelines.

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### **SCOPE AND METHODOLOGY**

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2001-2002 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 January 2001 to September 2002. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting and recording of cash receipts.

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## INTRODUCTION

- ▶ 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 automated accounting systems and proper documentation of the systems.
- ▶ 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 the date of our report. 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.

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## BACKGROUND

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

This report represents our biennial review.

## **OPINION**

We visited the California State Polytechnic University, Pomona (CSPUP) campus from October 7, 2002, through November 15, 2002, and made a study and evaluation of the accounting and administrative control in effect as of November 15, 2002. Our study and evaluation were conducted in accordance with the 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.

CSPUP 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.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report.

In our opinion, the accounting and administrative control at CSPUP in effect as of November 15, 2002, 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 change 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.

## **EXECUTIVE SUMMARY**

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

### **CASH RECEIPTS [6]**

Checks received in the student health center were not restrictively endorsed at the time of receipt, and daily deposits were not adequately secured. Adequate control over cash receipts reduces campus exposure to loss from inappropriate acts.

### **PURCHASING [7]**

Itemized receipts were not always obtained for procurement card purchases. Detailed receipts and invoices to support procurement card transactions reduce the risk of improper or duplicate payments.

### **REVOLVING FUND [8]**

#### **SALARY ADVANCES [8]**

Controls over salary advances did not always ensure timely recovery or remittance to the State Controller's Office (SCO) and proper accounting. Sufficient control over salary advances ensures that revolving fund monies will be available in other needed areas.

#### **TRAVEL ADVANCES [9]**

Controls over travel advances did not always ensure timely and complete submission of travel expense claims and clearance of travel advances. Sufficient control over travel advances ensures the proper use and availability of revolving fund monies.

### **PAYROLL AND PERSONNEL [10]**

Vacation and sick leave accruals and balances were inaccurately monitored for some employees. Adequate control over vacation and sick leave accruals and balances reduces the risk of noncompliance with personnel policy and procedures including collective bargaining agreements and employment legal liability.

### **FIXED ASSETS [11]**

Property survey reports were not properly completed, while missing fixed assets valued at \$434,046 were maintained in a suspense account for an excessive period of time. Proper completion of property survey reports and timely determination of the disposition of missing fixed assets

strengthens accountability over the disposal of state property and reduces the risk of misappropriation of property and mistatement of property records.

### **INVESTMENTS [12]**

Controls over investment policy, account maintenance, and reconciliation procedures required improvement. Sufficient control over investments reduces the risk of potential misunderstandings and improper investments, ensures timely detection of errors and irregularities, and may improve earnings.

### **TRUST FUNDS [14]**

Trust fund project administration was in need of improvement. Adequate trust fund administration reduces the risk of inappropriate expenditures and loss due to insufficient trust fund management.

### **RECONCILIATIONS [15]**

Certain reconciliations were not prepared timely while a \$3 million reconciling difference from June 2001 was unresolved. Completing reconciliations and resolving differences in a timely manner improve accountability and reduce the risk that errors and irregularities will not be detected.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

Checks received in the student health center were not restrictively endorsed at the time of receipt, and daily deposits were not adequately secured.

Our review of satellite cashiering at the student health center and the library disclosed that checks received in the student health center were not restrictively endorsed at the time of receipt, and a key for the cabinet containing daily deposits was left inside an unlocked drawer located inside the pharmacy.

The California State Polytechnic University, Pomona (CSPUP) *Cashiering Procedures* state that checks must be endorsed immediately upon receipt.

State Administrative Manual (SAM) §8032.1 states that when funds are not in use, they should be locked for safekeeping.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The student health center administrative services coordinator stated that checks were not restrictively endorsed upon receipt due to an oversight. She further stated that the drawer was unlocked since the cabinet was inside a secured pharmacy.

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

#### **Recommendation 1**

We recommend that the campus strengthen procedures at the student health center to ensure that checks are endorsed at the time of receipt and that daily deposits are adequately secured.

#### **Campus Response**

We concur with the recommendation to strengthen student health center procedures.

Since endorsing checks immediately upon receipt is already a formal campus procedure, and the checks in question were an isolated oversight and not part of a systemic procedural problem, no change to the campus procedure is required. The director of student health services will issue a written directive instructing student health center staff members to endorse all checks immediately upon receipt as required by campus procedures. With regards to the key for the cabinet containing daily deposits, the directive will also instruct student health center staff members to leave the key in the locked front counter drawer instead of an unlocked drawer.

Timeline: May 30, 2003.

## **PURCHASING**

Itemized receipts were not always obtained for procurement card purchases.

Three of ten procurement card statements from September 2002 did not include itemized receipts or invoices for some transactions.

The CSPUP *Procurement Credit Card Program* states that an itemized receipt is required for all purchases. The cardholder shall require the vendor to itemize the receipt or invoice. A detailed receipt is required by the State Controller's Office. The cardholder will require the vendor to itemize the receipt/invoice with the following information:

- ▶ Vendor name and address.
- ▶ Description of items purchased.
- ▶ Quantity ordered.
- ▶ Price per item.
- ▶ Amount of sales tax and total amount.
- ▶ Shipping charges, if applicable.

The associate vice president of finance and administrative services stated that the cardholder signs receipts and both the cardholder and supervisor sign the summary of monthly purchases. He further stated that these standard controls mitigate the occasional omission of itemized receipts.

Lack of detailed receipts or invoices to support procurement card transactions increases the risk of improper or duplicate payments.

### **Recommendation 2**

We recommend that the campus strengthen procedures to ensure that detailed receipts or invoices are included in support of all procurement card purchases.

### **Campus Response**

We concur with the recommendation to strengthen procurement card purchase receipt audit procedures.

The campus has already increased its audits of all procurement card submission components, including the requirement for itemized receipts. Upon receipt of an incomplete procurement card submission packet missing itemized receipts (or is otherwise deficient), an accounts payable department staff member returns the original submission packet along with an audit request form to the cardholder. The audit request form directs the cardholder to take corrective action (including the submission of itemized receipts) in order to properly process the submission. The accounts payable

department staff member follows up on the audit request form until the issue is resolved. Documentation will be submitted under separate cover.

Timeline: Completed.

## **REVOLVING FUND**

### **SALARY ADVANCES**

Controls over salary advances did not always ensure timely recovery or remittance to the State Controller's Office (SCO) and proper accounting.

Our review of 11 outstanding salary advances as of September 2002 disclosed that:

- ▶ Three salary advances took between 69 and 137 days to be recovered and had not been timely remitted to the SCO. The advances had been recovered between December 2001 and October 2002 but had not been remitted as of November 2002.
- ▶ Three expired checks and an amount owed to an employee (\$109) were erroneously recorded as salary advances.

State University Administrative Manual (SUAM) §3813 indicates that salary advances to employees should be collected when a corrected or delayed warrant for the pay period involved is received with the time period for recovery of salary advances not to exceed 60 days.

SAM §8595 states that if the controller's warrant is not received by the agency within 30 calendar days following the issuance of the revolving fund advance, the agency must report the amount of the advance, compute federal withholding tax on the advance, and remit the withheld taxes to the SCO.

The director of payroll services stated that the instances were caused by the business process changes resulting from the PeopleSoft systems implementation.

Insufficient control over salary advances increases the risk that revolving fund monies will not be available in other needed areas.

### **Recommendation 3**

We recommend that the campus strengthen controls over the recovery, processing, and recording of salary advances.

### **Campus Response**

We concur with the recommendation to strengthen controls over the recovery, processing and recording of salary advances.

The campus has already implemented a procedure to reconcile open salary advances monthly. The accounting office provides payroll services with a listing every month of open salary advances that is reviewed for discrepancies. Payroll services advises the accounting office of any entries recorded incorrectly and continues to follow up until it is resolved. Any open salary advances that are not for the current pay period are reviewed with the payroll technician who has responsibility for that area. Any outstanding documentation to pay off the salary advance is processed and follow-up continues until the salary advance is cleared. Documentation will be submitted under separate cover.

Timeline: Completed.

## **TRAVEL ADVANCES**

Controls over travel advances did not always ensure timely and complete submission of travel expense claims and clearance of travel advances.

Our review of ten outstanding travel advances as of September 2002 disclosed that:

- ▶ Supporting documents could not be located in two instances.
- ▶ Four travel advances had been outstanding from four to fifteen months.
- ▶ Four other travel advances issued via the legacy accounting system and cleared through accounts payable remained outstanding on the revolving fund reconciliation.

SAM §8116.2 requires the submittal of a properly prepared travel expense claim (TEC) to substantiate travel expenses as soon as possible after the trip or at least once a month and periodic statements sent no less frequently than bimonthly to notify employees who have travel advances but have not submitted a TEC to substantiate the travel expenses and/or have not returned any excess travel advance amount.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The accounts payable supervisor stated that supporting documents for two old legacy system travel advance balances could not be located due to misfiling. She further stated that the travel advances were not cleared on a timely basis due to the late submission and insufficient documentation provided by the travelers. She also noted that travel advances are handled differently in PeopleSoft than in the legacy system, and subsequently, some converted legacy balances did not clear properly during initial PeopleSoft operations and had to be manually adjusted.

Insufficient control over travel advances increases the risk that revolving fund monies are not available and may be expended for inappropriate purposes.

### **Recommendation 4**

We recommend that the campus strengthen controls over travel advances and the substantiation of travel expenses.

### **Campus Response**

We concur with the recommendation to strengthen travel advance and substantiation controls.

The campus has already increased its audits of all travel advance and expense claim components, including the requirements that claims are submitted in a timely manner and include proper supporting documents. If an outstanding travel expense claim is past due, or upon receipt of an incomplete travel expense claim missing supporting documents (or is otherwise deficient), an accounts payable department staff member will return the original travel expense claim (if applicable) along with a UFS travel desk form to the traveler. The UFS travel desk form directs the traveler to take corrective action in order to properly process the claim. The accounts payable department staff member follows up on the UFS travel desk form until the issue is resolved. In addition, the accounts payable department created and maintains a current list of outstanding travel advances to assist in properly reconciling and clearing out individual travel advances. Documentation will be submitted under separate cover.

Timeline: Completed.

## **PAYROLL AND PERSONNEL**

Vacation and sick leave accruals and balances were inaccurately monitored for some employees.

Three of fourteen personnel files reviewed disclosed that vacation or sick leave accruals and balances were inaccurately reflected in the California Leave Accrual System.

SAM §8534 states that agencies will maintain sick leave and vacation records for each employee. STD. 642 or an equivalent form will be used to maintain individual sick leave and vacation credit balances. Information on sick leave and vacation usage will be obtained from monthly attendance reports, equivalent attendance summaries, STD. 634, or similar sources.

The director of payroll services stated that there was a clerical error in the posting of leave usage.

Inadequate control over vacation and sick leave accruals and balances increases the risk of noncompliance with personnel policy and procedures including collective bargaining agreements and employment legal liability.

### **Recommendation 5**

We recommend that the campus strengthen procedures to ensure vacation and sick leave accruals and balances are properly recorded and tracked.

### **Campus Response**

We concur with the recommendation to strengthen procedures to ensure vacation and sick leave accruals and balances are properly recorded and tracked.

The campus has already implemented an audit procedure to review all leave accounting documentation. Every month after the payroll technician processes leave accounting for their area of responsibility, the documentation is forwarded to another payroll technician for review. This payroll technician reconciles the totals of each type of leave usage used by employees and then selects certain records to make sure the leave usage has been documented correctly in the leave accounting system (LAS). The leave accounting balance report is run monthly and sent to the department attendance coordinators for reconciliation. On a quarterly basis, the payroll coordinator also reviews the leave accounting reports. In March 2003, three payroll technicians received a refresher LAS training conducted by the State Controller's Office. The campus will continue to attend these LAS trainings when possible. Documentation will be submitted under separate cover.

Timeline: Completed.

## **FIXED ASSETS**

Property survey reports were not properly completed, while missing fixed assets valued at \$434,046 were maintained in a suspense account for an excessive period of time.

Our review of 20 asset disposals and other property records disclosed that property survey reports did not contain the precautions to be used to prevent similar property loss, theft, or destruction situations. Missing property valued at \$434,046 had been recorded in a suspense account, an average of one year, while awaiting disposition.

SAM §8643 indicates that whenever property is lost, stolen, or destroyed, departments will prepare a property survey report form, STD. 152. The report will contain a description of the event, precautions to be taken to prevent repeat situations, and a statement that the California Highway Patrol has been notified.

SAM §3520.5 indicates, in part, that a properly executed property survey report must be completed when disposing of state-owned property.

The CSPUP *Missing Property Procedures* state that the Property Review Board will review all "Missing Property Reports" presented by the inventory officer resulting from: 1) physical inventory; or 2) property reported missing, independent of an inventory. The Board will recommend one of the following actions: 1) survey of the item(s), without further consideration; or 2) further investigation,

survey pending. Additionally, *Missing Property Procedures* state that the Property Review Board will meet quarterly or as necessary.

The director of procurement and support services indicated that precautionary statements were not always reported on the property survey form because individuals, responsible for preparing the forms, assumed that the police incident reports were sufficient to meet the requirements. He further stated that the property review board was not able to meet on a quarterly basis due to employee turnover, which resulted in missing fixed assets being maintained in the suspense file for extended periods.

Incomplete property survey reports and untimely disposition of missing fixed assets reduce accountability over the disposal of state property and increase the risk of misappropriated property and misstated property records.

### **Recommendation 6**

We recommend that the campus strengthen procedures over the completion of property survey reports and the disposition of missing property.

### **Campus Response**

We concur with the recommendation.

The university is in the process of revising and strengthening the procedures over the completion of property survey reports and the disposition of missing property.

Timeline: June 30, 2003.

## **INVESTMENTS**

Controls over investment policy, account maintenance, and reconciliation procedures required improvement.

Specifically, we noted that:

- ▶ A written statement of investment policy had not been prepared.
- ▶ Cash flow analysis was not documented.
- ▶ Two short-term Metropolitan West Securities, Inc. (MetWest) investment accounts with the same purpose had not been consolidated.
- ▶ Investment reconciliations were not signed and dated by the reviewer and preparer.

The California State University (CSU) Investment Policy, *RFIN 01-97-03*, states that each campus will provide a written statement of investment policy. Further, the Board of Trustees desires to provide each campus president the greatest possible flexibility to maximize investment opportunities.

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

SAM §7908 states that all reconciliations will show the name of the preparer and the reviewer, as well as the dates prepared and reviewed.

SAM §20050 indicates that there should be an established system of practices to be followed in the performance of duties and functions and that it represents a control weakness if policy and procedure manuals are either not up to date or do not exist.

The associate vice president of finance and administrative services stated that the transfer of funds between short- and long-term investments is at the discretion of management, and a written procedure on transferring funds between the two accounts would be general in nature. He further stated that the two short-term MetWest investment accounts had been established for precautionary purposes to segregate funds when the conversion was made to Assembly Bill 2812. He also noted that the reconciliations had an electronic signature attributed to them, and were appropriately reviewed.

Insufficient control over investments increases the risk of potential misunderstandings and improper investments, does not ensure timely detection of errors and irregularities, and may reduce earnings.

### **Recommendation 7**

We recommend that the campus:

- a. Prepare a written investment policy, including a strategy for determining when to move funds in and out of their short- and long-term investments.
- b. Document cash flow analysis.
- c. Combine the two short-term MetWest investment accounts.
- d. Strengthen procedures to ensure that all investment reconciliations are signed and dated by the preparer and reviewer.

### **Campus Response**

We concur with the recommendations.

- a. The campus will prepare a written investment policy which will include a strategy of when to invest and divest funds. Campus management has decided to invest only in short-term investments.

- b. The campus has always analyzed (but previously did not document this analysis) cash flow as part of its regular investment activities. Documentation of the cash flow analysis is now included as part of the campus monthly investment reconciliations that are signed and dated by the preparer and reviewer.
- c. All MetWest investment accounts have been combined into a single short-term account.
- d. All investment reconciliations are now signed and dated by the preparer and reviewer.

Timeline: July 31, 2003.

## **TRUST FUNDS**

Trust fund project administration was in need of improvement.

Our review of 13 trust projects disclosed that:

- ▶ Two had negative fund balances ranging from \$56,987 to \$66,086, as of June 30, 2001.
- ▶ Three expenditures were not approved by authorized individuals.
- ▶ Budgets were not prepared for major trust projects.

SUAM §3710.01 indicates that each trust project must maintain a positive cash balance and a positive fund balance.

SUAM §3710.04 indicates that preparation and approval of a budget assist in the management of a trust project.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director of accounting services stated that the negative fund balances and unauthorized individuals approving expenditures were isolated occurrences due to oversight. He further stated that because the university was converting to PeopleSoft finance and closing fiscal year 2000-2001 in the legacy system during July 2001, there was no staff time available to resolve the negative June 30, 2001 fund balances due to other much higher priority issues. In addition, he indicated that budgets were never used for trust funds.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss due to poor trust fund management.

### **Recommendation 8**

We recommend that the campus:

- a. Improve oversight procedures to ensure that all trust projects maintain positive fund balances.
- b. Strengthen controls to ensure expenditures are appropriately approved.
- c. Require the preparation of an annual budget for each major trust project.

### **Campus Response**

We concur with the recommendations.

- a. A general accounting department staff member now runs and reviews a monthly PeopleSoft query on trust fund net asset (and cash) balances to ensure that they have positive balances. Documentation will be submitted under separate cover.
- b. New improved guidelines have been established for the procurement, accounts payable, and general accounting departments which ensure trust fund expenditures are appropriately approved. Documentation will be submitted under separate cover.
- c. As discussed with President Suzuki at the exit videoconference, the campus will not be preparing formal budgets for major trust fund projects, but will address improved management of trust fund projects through the improved internal control procedures described above in subsections a. and b.

Timeline: Completed.

## **RECONCILIATIONS**

Certain reconciliations were not prepared timely while a \$3 million reconciling difference from June 2001 was unresolved.

We noted that:

- ▶ Revolving fund, bank, and SCO reconciliations were prepared two to five months after the month end. As a result, outstanding checks totaling \$66,147 dated July 2000 through June 2001 had not been remitted to the SCO until November 2002.
- ▶ A reconciling difference concerning \$3 million of student fees from June 2001 had not been completely resolved with the SCO as of November 2002.

SUAM §7900 requires monthly preparation of all reconciliation within 30 days of the preceding month.

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

SAM §8042 states that office revolving fund and agency checks issued on or after January 1, 1998, have a one-year period of negotiability. Office revolving fund checks outstanding for more than one

year or unclaimed, for which the reimbursement to the office revolving fund has not been received, will be canceled and credited back to the office revolving fund. Office revolving fund checks for which the reimbursement has been received and agency checks, whether uncashed for more than one year or unclaimed, will be canceled and the amount of such checks will be remitted to an escheat revenue account in the fund from which they were drawn.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The associate vice president of finance and administrative services indicated that the implementation of various PeopleSoft applications had a direct negative effect on the ability of the campus to generate timely reconciliations.

Not completing reconciliations and resolving differences in a timely manner compromise accountability and increase the risk that errors and irregularities will not be detected.

### **Recommendation 9**

We recommend that the campus strengthen procedures to ensure that revolving fund, bank, and SCO reconciliations are completed in a timely manner and reconciling differences are promptly resolved.

### **Campus Response**

We concur with the recommendation to strengthen revolving fund, bank, and SCO reconciliation procedures.

The campus has always had procedures and controls in place to complete revolving fund, bank, and SCO reconciliations in a timely manner, and promptly resolve any reconciling differences. Since the lapse in these reconciliations was caused directly by the installation of CMS modified and approved PeopleSoft administrative systems that were not fully functional, the only internal control option to avoid such problems in the future would be for the campus to hold off on installation of CMS systems that have documented functional process defects. As installation of many of these applications and upgrades was and will continue to be mandated, the campus complied and had to deal with the negative issues (including reconciliations) during production. With regards to the specific reconciliation issues in this audit report, now that the system reconciliation processes are fully functional again, the campus is completing reconciliations for all affected fiscal months. Once the campus is current, all reconciliations will once again be completed within 30 days of the preceding month, and any reconciling differences will be promptly resolved.

Timeline: July 31, 2003.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Bob H. Suzuki	President
Sheryl Adams	Accounting Technician, University Financial Services
Anita Aguirre	Administrative Analyst, Procurement and Support Services
Cathy Baker	Administrative Services Coordinator, Student Health Services
Kathryn Barbosa	Lead Accountant, University Financial Services
Armando Bustamante	Shipping and Receiving Technician, Distribution Services
Ruth Carrington	PeopleSoft Coordinator, Procurement and Support Services
Amy Cher	Accountant, Student Accounting and Cashier Services
Gary Fredericksen	Director, Student Health Services
Donald Green	Director, Procurement and Support Services
Kathy Harper	Secretary, Finance and Administrative Services
Sharon Hinrichsen	Support Services Coordinator, Procurement and Support Services
Brian Jenkins	Director of Accounting Services
Darwin Labordo	Associate Vice President, Finance and Administrative Services
Lu Mandel	Records and Communications Supervisor, University Police Department
Marissa Martinez	Administrative Assistant, Procurement and Support Services
Mary Martinez	Coordinator, Payroll Services
Shelly Montoya	Accounts Payable Supervisor, University Financial Services
Caryn Romo	Assistant, Library
Debra Schneck	Lead Buyer, Procurement and Support Services
Jane Self	Director, Payroll Services
Albert Sim	Manager, Student Accounting and Cashier Services
Gwendolyn Stevens	Accounting Technician, University Financial Services
Al Viteri	Finance Systems Administrator, University Financial Services
Joyce Wagar	Financial Reporting Accountant, University Financial Services
Linda Wheeler	Vault Cashier, University Financial Services
Marla Williams	Administrative Support Assistant, Student Health Center

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

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

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

#### **1. Internal Accounting Controls**

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

#### **2. Operational Controls**

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **C. INTERNAL CONTROL OBJECTIVES**

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.



## CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

Office of the Vice President  
for Administrative Affairs

April 30, 2003

Mr. Larry Mandel, University Auditor  
Office of the Auditor  
The California State University  
400 Golden Shore, Suite 210  
Long Beach, CA 90802

RECEIVED  
UNIVERSITY AUDITOR

MAY - 2 2003

THE CALIFORNIA STATE  
UNIVERSITY

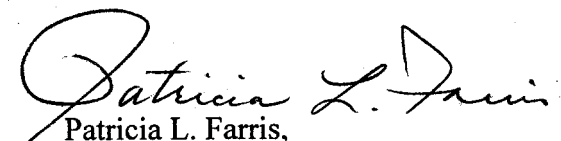
Dear Mr. Mandel:

**Subject: Campus Response to Recommendations of  
FISMA Audit Report 02-07**

Enclosed is California State Polytechnic's campus response to FISMA Audit Report Number 02-07. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report's recommendations.

Please direct questions concerning the response to Darwin Labordo, Associate Vice President of Finance and Administrative Services at 909-869-2008 or [dlabordo@csupomona.edu](mailto:dlabordo@csupomona.edu).

Sincerely,

  
Patricia L. Farris,  
Vice President, Administrative Affairs

Cc: Dr. Bob H. Suzuki, President  
Darwin Labordo, Associate Vice President, Finance & Administrative Services  
Donald W. Green, Director of Procurement and Support Services  
Brian K. Jenkins, Director of Accounting Services  
Jane Self, Director of Payroll Services

Enclosure

Pomona, CA 91768 Telephone (909) 869-3020 Fax (909) 869-4541 E-mail [plfarris@csupomona.edu](mailto:plfarris@csupomona.edu)

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA**  
**Report Number 02-07**  
**FISMA**  
**As of April 30, 2003**

<b>Recommendation Number</b>	<b>Description</b>	<b>Completed</b>	<b>In Progress</b>	<b>Expected Completion Date</b>
	Cash Receipts		X	May 30, 2003
2	Purchasing	X		
3	Salary Advances	X		
4	Travel Advances	X		
	Payroll and Personnel	X		
6	Fixed Assets		X	June 30, 2003
7	Investments			July 31, 2003
8	Trust Funds	X		
9	Reconciliations		X	July 31, 2003

**Response to Recommendations of Audit Report Number 02-07  
FISMA at California State Polytechnic University, Pomona  
April 30, 2003**

## **CASH RECEIPTS**

### **Recommendation 1**

We recommend that the campus strengthen procedures at the student health center to ensure that checks are endorsed at the time of receipt and that daily deposits are adequately secured.

### **Campus Response**

We concur with the recommendation to strengthen Student Health Center procedures.

Since endorsing checks immediately upon receipt is already a formal campus procedure, and the checks in question were an isolated oversight and not part of a systemic procedural problem, no change to the campus procedure is required. The Director of Student Health Services will issue a written directive instructing Student Health Center staff members to endorse all checks immediately upon receipt as required by campus procedures. With regards to the key for the cabinet containing daily deposits, the directive will also instruct Student Health Center staff members to leave the key in the locked front counter drawer instead of an unlocked drawer.

**Timeline: May 30, 2003**

## **PURCHASING**

### **Recommendation 2**

We recommend that the campus strengthen procedures to ensure that detailed receipts or invoices are included in support of all procurement card purchases.

### **Campus Response**

We concur with the recommendation to strengthen procurement card purchase receipt audit procedures.

The campus has already increased its audits of all procurement card submission components, including the requirement for itemized receipts. Upon receipt of an incomplete procurement card submission packet, missing itemized receipts (or is otherwise deficient), an Accounts Payable Department staff member returns the original submission packet along with an Audit Request Form to the cardholder. The Audit Request Form directs the cardholder to take corrective action (including the submission of itemized receipts) in order to properly process the submission. The Accounts Payable Department staff member follows up on the Audit Request Form until the issue is resolved. Documentation will be submitted under separate cover.

**Timeline: Completed**

## REVOLVING FUND

### SALARY ADVANCES

#### Recommendation 3

We recommend that the campus strengthen controls over the recovery, processing, and recording of salary advances.

#### Campus Response

We concur with the recommendation to strengthen controls over the recovery, processing and recording of salary advances.

The campus has already implemented a procedure to reconcile open salary advances monthly. The Accounting Office provides Payroll Services with a listing every month of open salary advances that is reviewed for discrepancies. Payroll Services advises the Accounting Office of any entries recorded incorrectly and continues to follow-up until it is resolved. Any open salary advances that are not for the current pay period are reviewed with the payroll technician who has responsibility for that area. Any outstanding documentation to pay off the salary advance is processed and follow-up continues until the salary advance is cleared. Documentation will be submitted under separate cover.

**Timeline: Completed**

### TRAVEL ADVANCES

#### Recommendation 4

We recommend that the campus strengthen controls over travel advances and the substantiation of travel expenses.

#### Campus Response

We concur with the recommendation to strengthen travel advance and substantiation controls.

The campus has already increased its audits of all travel advance and expense claim components, including the requirements that claims are submitted in a timely manner and include proper supporting documents. If an outstanding travel expense claim is past due, or upon receipt of an incomplete travel expense claim missing supporting documents (or is otherwise deficient), an Accounts Payable Department staff member will return the original travel expense claim (if applicable) along with a UFS Travel Desk Form to the traveler. The UFS Travel Desk Form directs the traveler to take corrective action in order to properly process the claim. The Accounts Payable Department staff member follows up on the UFS Travel Desk Form until the issue is resolved. In addition, the Accounts Payable Department created and maintains a current list of outstanding travel advances to assist in properly reconciling and clearing out individual travel advances. Documentation will be submitted under separate cover.

**Timeline: Completed**

## **PAYROLL AND PERSONNEL**

### **Recommendation 5**

We recommend that the campus strengthen procedures to ensure vacation and sick leave accruals and balances are properly recorded and tracked.

#### **Campus Response**

We concur with the recommendation to strengthen procedures to ensure vacation and sick leave accruals and balances are properly recorded and tracked.

The campus has already implemented an audit procedure to review all leave accounting documentation. Every month after the payroll technician processes leave accounting for their area of responsibility, the documentation is forwarded to another payroll technician for review. This payroll technician reconciles the totals of each type of leave usage used by employees and then selects certain records to make sure the leave usage has been documented correctly in the leave accounting system (LAS). The leave accounting balance report is run monthly and sent to the department attendance coordinators for reconciliation. On a quarterly basis, the payroll coordinator also reviews the leave accounting reports. In March 2003, three payroll technicians received a refresher LAS training conducted by the State Controller's Office. The campus will continue to attend these LAS trainings when possible. Documentation will be submitted under separate cover

**Timeline: Completed**

## **FIXED ASSETS**

### **Recommendation 6**

We recommend that the campus strengthen procedures over the completion of property survey reports and the disposition of missing property.

#### **Campus Response**

We concur with the recommendation.

The University is in the process of revising and strengthening the procedures over the completion of property survey reports and the disposition of missing property.

**Timeline: June 30, 2003**

## **INVESTMENTS**

### **Recommendation 7**

We recommend that the campus:

- a. Prepare a written investment policy, including a strategy for determining when to move funds in and out of their short- and long-term investments.
- b. Document cash flow analysis.
- c. Combine the two short-term MetWest investment accounts.
- d. Strengthen procedures to ensure that all investment reconciliations are signed and dated by the preparer and reviewer.

### **Campus Response**

We concur with the recommendations.

- a. The campus will prepare a written investment policy which will include a strategy of when to invest and divest funds. Campus management has decided to invest only in short-term investments.
- b. The campus has always analyzed (but previously did not document this analysis) cash flow as part of its regular investment activities. Documentation of the cash flow analysis is now included as part of the campus monthly investment reconciliations that are signed and dated by the preparer and reviewer.
- c. All MetWest investment accounts have been combined into a single short-term account.
- d. All investment reconciliations are now signed and dated by the preparer and reviewer.

**Timeline: July 31, 2003**

## **TRUST FUNDS**

### **Recommendation 8**

We recommend that the campus:

- a. Improve oversight procedures to ensure that all trust projects maintain positive fund balances.
- b. Strengthen controls to ensure expenditures are appropriately approved.
- c. Require the preparation of an annual budget for each major trust project.

### **Campus Response**

We concur with the recommendations.

- a. A General Accounting Department staff member now runs and reviews a monthly PeopleSoft query on Trust Fund Net Asset (and cash) balances to ensure that they have positive balances. Documentation will be submitted under separate cover.

- b. New improved guidelines have been established for the Procurement, Accounts Payable, and General Accounting departments which ensure Trust Fund expenditures are appropriately approved. Documentation will be submitted under separate cover.
- c. As discussed with President Suzuki at the exit videoconference, the campus will not be preparing formal budgets for major trust fund projects, but will address improved management of trust fund projects through the improved internal control procedures described above in subsections a. and b.

**Timeline: Completed**

## **RECONCILIATIONS**

### **Recommendation 9**

We recommend that the campus strengthen procedures to ensure that revolving fund, bank, and SCO reconciliations are completed in a timely manner and reconciling differences are promptly resolved.

#### **Campus Response**

We concur with the recommendation to strengthen revolving fund, bank, and SO reconciliation procedures.

The campus has always had procedures and controls in place to complete revolving fund, bank, and SCO reconciliations in a timely manner, and promptly resolve any reconciling differences. Since the lapse in these reconciliations was caused directly by the installation of CMS modified and approved PeopleSoft administrative systems that were not fully functional, the only internal control option to avoid such problems in the future would be for the campus to hold off on installation of CMS systems that have documented functional process defects. As installation of many of these applications and upgrades was and will continue to be mandated, the campus complied and had to deal with the negative issues (including reconciliations) during production. With regards to the specific reconciliation issues in this audit report, now that the system reconciliation processes are fully functional again, the campus is completing reconciliations for all affected fiscal months. Once the campus is current, all reconciliations will once again be completed within 30 days of the preceding month, and any reconciling differences will be promptly resolved.

**Timeline: July 31, 2003**

  
**THE CALIFORNIA STATE UNIVERSITY**  
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

May 14, 2003

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HIL

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 02-07 on *FISMA*,  
California State Polytechnic University, Pomona

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of May 14, 2003, I accept the response as submitted with the draft final report on *FISMA*, California State Polytechnic University, Pomona.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Ms. Patricia L. Farris, Vice President for Administrative Affairs  
Dr. Bob Suzuki, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAU