

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
DOMINGUEZ HILLS**

**Report Number 03-07**

**February 13, 2004**

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## **ABBREVIATIONS**

CSU	California State University
CSUDH	California State University, Dominguez Hills
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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## EXECUTIVE SUMMARY

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

This report represents our biennial review.

We visited the California State University, Dominguez Hills (CSUDH) campus from September 2, 2003, through October 17, 2003, and made a study and evaluation of the accounting and administrative control in effect as of October 17, 2003. This report represents our biennial review.

CSUDH 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 revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal controls over the following areas: accounts receivable, fixed assets, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, CSUDH's accounting and administrative control in effect as of October 17, 2003, 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.

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

### **CASH RECEIPTS [8]**

Application and state university fee reconciliations were not always timely prepared, and housing revenue was not reconciled to occupancy records.

### **ACCOUNTS RECEIVABLE [9]**

Campus procedures did not ensure the timely compilation of data from service departments and execution of service agreements for billing to auxiliary enterprises and third parties. A review of 24 invoices issued between September 2002 and July 2003 disclosed that ten billings were invoiced between 3 to 24 months after the services were provided. In addition, the campus was not always writing off outstanding accounts receivable less than \$1,000 on a timely basis. Outstanding accounts receivable balances as of August 31, 2003, included 441 balances totaling \$122,485.

### **PURCHASING [11]**

Campus procurement card controls did not ensure that approval was documented for exemptions granted to purchase prohibited and restricted items and that sufficient documentation was secured. Instances were noted where itemized restaurant receipts were not included, and the business purpose for purchases of clothing and gifts items was not explained.

### **REVOLVING FUND [12]**

Controls over travel expense claims did not always ensure adequate documentation and appropriate reimbursement. Two claimants were paid for meal allowances of meeting participants or students without adequate documentation, and one claimant was reimbursed the daily maximum meal allowances along with food and beverage claimed as lodging expenses.

### **PAYROLL AND PERSONNEL [13]**

Documentation of involuntary employee separations was not always timely and complete. Campus separation checklists were processed even though clearance approval was informally received via e-mail

an average of seven months after separation. In addition, clearance approval was not always received for instruction media equipment and computer services.

### **FIXED ASSETS [15]**

Property acquisitions and dispositions were not always recorded into the accounting records in a timely manner. Property was recorded over seven months after receipt for 6 of 15 acquisitions reviewed, while property from 4 of 15 survey reports was either not removed from property records or removed up to eight months after the survey date. In addition, property survey reports were not always complete and timely.

### **FISCAL INFORMATION TECHNOLOGY [18]**

Accounts existed on the financial computer system that did not expire and had not been accessed in an inordinate length of time, which in some cases exceeded five years. In addition, the computer room did not have intrusion detection devices to effectively detect unauthorized access during non-business hours.

### **TRUST FUNDS [19]**

Trust fund expenditures were not always properly approved, which is a repeat finding from the prior FISMA audit. An individual who was an authorized signatory per the trust agreement did not approve 6 of 24 expenditures reviewed. In addition, trust fund agreements were not always complete, and approval of certain amendments was not documented.

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## INTRODUCTION

### **PURPOSE**

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

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled, and access to personnel 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 guidelines.

### **SCOPE AND METHODOLOGY**

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. 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 2002/03 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was July 2003 to September 2003. Our primary focus was on internal controls. Specifically, we reviewed and tested:



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INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of revolving fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to 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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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

Application and state university fee reconciliations were not always timely prepared, and housing revenue was not adequately controlled through a reconciliation process.

Specifically, we noted that:

- ▶ The reconciliation of applications for admission to fees received from fall 2001 through spring 2003 took an average of three months following the end of the semester to complete.
- ▶ The reconciliation of state university fees from fall 2001 through spring 2003 took an average of four months following the semester census date to complete.
- ▶ Occupancy records maintained by university housing services and revenue recorded in the general ledger were not reconciled.

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

SUAM §3825.02 requires that a reconciliation of state university fees to the census date report be prepared for each academic term.

State Administrative Manual (SAM) §7901 indicates that the accuracy of accounting records may be proved partially by making certain reconciliations and verifications. Further, all reconciliations will be prepared monthly within 30 days of the preceding month.

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

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 untimely reconciliation of applications for admission to fees received was due to oversight. He further stated that the delay in reconciliation of state university fees to enrollment was the result of a decision to wait until all fee adjustments related to pro rata refunds in accordance with Title V had been processed for each academic term. He added that while a reconciliation of housing revenue to occupancy records was not performed, a periodic comparison was made of actual to budgeted housing revenue with the latter being based upon expected occupancy levels.

Failure to prepare timely fee reconciliations and sufficiently control fees increases the risk that errors and irregularities will not be promptly detected.

### **Recommendation 1**

We recommend that the campus strengthen procedures to ensure timely completion of application and state university fee reconciliations and establish procedures to reconcile housing revenue to occupancy records.

### **Campus Response**

We concur. The campus will revise and strengthen its procedures for reconciliation of admissions applications fees and state university fees in order that they are completed in a timely manner. The university will also develop a procedure to reconcile housing revenue to occupancy records. These procedures will be completed by the end of June 2004.

## **ACCOUNTS RECEIVABLE**

### **BILLINGS FOR SERVICE**

Campus procedures did not ensure the timely compilation of data from service departments and execution of service agreements for billing to auxiliary enterprises and third parties.

A review of 24 invoices issued between September 2002 and July 2003 disclosed that ten billings were invoiced between 3 to 24 months after the services were provided. For example, we noted that faculty release time was compiled for two semesters at a time, thereby delaying billing for the earlier semester. The written agreement between extended education and the campus for fiscal year 2002/03 General Fund reimbursement was not executed until April 2003, thereby delaying reimbursements that were to be made on a quarterly basis. In addition, written agreements with the Long Beach Unified School District for the reimbursement of utility, maintenance, and custodial costs for space shared by the California Academy of Math and Science program for fiscal years 2001/02 and 2002/03 were not executed until September 2003, which delayed the invoicing of such costs.

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

The director of accounting services stated that the delayed billings were attributed to the untimely compilation of data by the service departments and execution of service agreements. He further stated that the delayed billings were prepared immediately upon receipt of completed documents that requested and authorized such billings.

Failure to timely invoice or recharge outstanding obligations due to the General Fund reduces working capital and the likelihood of collecting funds.

### **Recommendation 2**

We recommend that the campus strengthen procedures to ensure the timely compilation of data and execution of service agreements to permit prompt billing of services provided to auxiliary enterprises and third parties.

### **Campus Response**

We concur. The campus has developed a database to monitor the renewal of service agreements. It will also review and enhance, as appropriate, processes to collect data in order that billings can be submitted for timely processing for auxiliary organizations and other campuses entities. These new processes and procedures are scheduled to be completed by the end of July 2004.

## **DISCHARGE OF ACCOUNTABILITY**

The campus was not always writing off outstanding accounts receivable less than \$1,000 on a timely basis.

Our review of outstanding accounts receivable balances as of August 31, 2003, disclosed the following:

Balance	Over Two Years	
	Number	Total
\$100 and under	169	5,374
\$100.01 to \$250	75	12,367
\$250.01 to \$500	107	40,743
\$500.01 to \$1,000	90	64,001
\$1,000 or more	441	122,485

Executive Order 616, *Discharge of Accountability*, dated April 19, 1994, delegates authority to the campus for local adjustments of up to \$1,000 that are determined to be uncollectible or where the amount does not justify the collection costs. Discharge of accountability does not release the debtor from their obligation to the campus.

The associate director of accounting services stated that certain balances for unpaid university and housing fees were contracted to a collection agency and others were scheduled for discharge in September 2003. She further stated that campus procedures provided for write off when accounts were returned from collection agencies unless further collection efforts were deemed worthwhile. The director of operations at the college of extended education stated that unpaid fees from extended

education courses are collectible. The manager of payroll services stated that certain balances for unpaid salary advances were under installment plans and others were scheduled for discharge.

Failure to discharge old outstanding accounts receivable increases the amount of resources expended on collection efforts.

### **Recommendation 3**

We recommend that the campus reevaluate the use of discharge of accountability for accounts receivable of \$1,000 or less that have been outstanding for two years or more.

### **Campus Response**

We concur. The campus will again evaluate its discharge of accountability procedures for accounts under \$1,000 that are over two years old. The current collection procedures used, however, have successfully collected over \$387,000 over the past two years, at no additional cost to the campus. The majority of these collections have been for outstanding accounts that were under \$1,000. This revaluation will be completed by July 2004.

## **PURCHASING**

Campus procurement card controls did not ensure that approval was adequately documented for exemptions granted to purchase prohibited and restricted items and that sufficient documentation was secured.

Our review of ten procurement cards statements between May 2003 and June 2003 disclosed that:

- ▶ In two instances, the procurement cardholder did not document the name of the credit card program administrator or designee providing verbal approval for an exemption to purchase prohibited and restricted items with the approval date.
- ▶ In three instances, a procurement card purchase did not include an itemized receipt from a restaurant.
- ▶ In one instance, the procurement card statement included purchases made for clothing and gifts without a description of a campus activity on the receipt.

California State University, Dominguez Hills Credit Card Manual, dated March 2001, requires that the procurement cardholder document the name of the credit card program administrator or designee approving an exemption from purchasing a prohibited and restricted item with the approval date.

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 procurement, contracts, logistical and support services stated that not documenting verbal approval for the purchase of prohibited and restricted items and insufficient documentation being attached to the credit card reconciliation was attributable to cardholder oversight.

Insufficient procurement card controls increase the risk of loss from inappropriate acts.

#### **Recommendation 4**

We recommend that the campus strengthen procedures and controls to ensure adequate supporting documentation for procurement card purchases.

#### **Campus Response**

We concur. The Credit Card Manual will be modified to emphasize the necessity to provide appropriate purchasing support documentation. Additionally, credit card holder and support staff that process credit card payments will be reminded of the proper supporting documentation. This will be completed by May 2004.

## **REVOLVING FUND**

Controls over travel expense claims did not always ensure adequate documentation and appropriate reimbursement.

Our review of 15 travel expense claims reimbursed between July 2002 and June 2003 disclosed that:

- ▶ In two instances, payment was made to a claimant for meal allowances without adequate documentation. Specifically, meal allowances were claimed by one individual to pay for banquet charges incurred at the hotel for meeting participants. However, the hotel bill supporting these banquet charges was not included with the expense claim. Another individual claimed per diem student meal allowances without evidence of a student receipt.
- ▶ In one instance, daily maximum meal allowances were reimbursed along with food and beverage purchases as lodging expenses.

Memorandum Human Resources 2001-02, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated January 17, 2001, indicates that the daily maximum

reimbursement amounts for breakfast, lunch, dinner, and incidentals are \$9, \$12, \$20, and \$5, respectively.

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 incomplete travel expense claims submitted by campus personnel were due to oversights and traveler representations.

Insufficient control over travel expenses increases the risk that revolving fund monies may be expended for inappropriate purposes.

### **Recommendation 5**

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

### **Campus Response**

We concur. The campus will review and make any appropriate modifications to its policies and procedures related to documentation required in support of travel expense claims. It will also be more diligent in monitoring travel expense claims for appropriate substantiation of the claims. These will be completed by July 2004.

## **PAYROLL AND PERSONNEL**

Documentation of involuntary employee separations was not always timely and complete.

A review of ten involuntary employee separations disclosed that although the campus separation checklist was processed by the payroll department, the checklist did not include the approving authorities contacted and date approved. Clearance approval was documented through e-mail messages received an average of seven months after separation to document certification for the repayment of returned checks, parking, keys, library materials, travel and salary advances, procurement cards, and identification cards. In addition, the clearance certification was not always received from an approving official for instruction media equipment and computer services.

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

The manager of payroll services stated that the lack of legal authority to withhold payment of wages at separation limited the effectiveness of separation procedures.

Untimely and incomplete documentation of employee separations increases the risk of loss of state funds and inappropriate use of state resources.

**Recommendation 6**

We recommend that the campus review and strengthen controls over documentation for involuntary employee separations.

### **Campus Response**

We concur. The campus will reassess and enhance the manner in which it processes and documents involuntary separations. This will be completed by July 2004.

## **FIXED ASSETS**

### **PROPERTY ACCOUNTING**

Controls over property accounting did not ensure that acquisitions were recorded timely.

Our review of 15 property acquisitions from October 2001 through June 2003 disclosed that in six instances, property was recorded into the accounting records over seven months after receipt. Three of the six property acquisitions were gifts-in-kind.

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 delay in updating the accounting records was due to oversight.

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

### **Recommendation 7**

We recommend that the campus strengthen controls to ensure that acquisitions are recorded timely.

### **Campus Response**

We concur. The campus will enhance monitoring procedures to address the timely recording of property acquisitions into the accounting system. This will be completed by June 2004.

### **PROPERTY DISPOSITIONS**

Property survey reports were not always complete and timely, and property dispositions were not always promptly recorded in property records.

Our review of 15 property survey reports from November 2002 through August 2003 disclosed that:

- ▶ In seven instances, the property survey report did not show the dollar amounts received from the sale of property and receipt number.
- ▶ In three instances, the certification for the disposal of state-owned property by means other than the sale of inventory was not documented on the property survey report.
- ▶ A property survey report included items previously reported as stolen 6 and 18 months from the survey date.
- ▶ In two instances, capitalized property on a survey report was not removed from the accounting records.
- ▶ In two instances, capitalized property was removed from the accounting records five and eight months following the survey date.

SAM §3520.2 indicates that each agency will have a duly appointed property survey board. It will be the responsibility of the board to determine that the best interest of the state is served in disposing of state property. At least two members of the property survey board will approve all property survey reports and any transfers of location of equipment.

SAM §3520.3 requires property survey reports to show the dollar amount received from the sale of state-owned personal surplus property and the receipt number.

SAM §3520.9 requires certification of disposition of state-owned surplus personal property by means other than the sale of property by the responsible employee and department supervisor on the property survey report or attached and filed with the form.

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 manager of logistics and support services stated that failure to maintain some disposition documents in the specific manner in which they were required was an oversight. The director of accounting services stated that the delay in removing capitalized property from the accounting records was due to oversight.

Not recording property dispositions in a timely and complete manner reduces accountability over the disposal of state property.

### **Recommendation 8**

We recommend that the campus strengthen property survey controls to ensure the complete and timely preparation of property survey reports and removal of capitalized property from property records.

### **Campus Response**

We concur. The campus will reevaluate and enhance its current processing and monitoring procedures for completing and recording of surveyed property. It will also be more diligent about reporting in a timely manner property that has been stolen and needs to be surveyed. Additionally, enhanced monitoring procedures will be implemented to address the timely removal of capitalized surveyed property items from accounting records. These will be completed by the end of June 2004.

## **FISCAL INFORMATION TECHNOLOGY**

### **SECURITY CONTROLS OVER COMPUTER ACCOUNTS**

Security administration procedures did not provide for the timely deletion of old or unused computer accounts, and password controls were not consistently set to provide effective control.

Specifically, we noted computer accounts that:

- ▶ Did not require password expiration.
- ▶ Were vendor default accounts that should have been removed.
- ▶ Were generic accounts that were not assigned to a specific individual.
- ▶ Were old accounts that had never been used or accessed in an inordinate length of time, which in some cases exceeded five years.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective account and password management. Effective password management is considered to include an appropriate and enforced frequency of password changes and automatic disabling of inactive accounts.

The associate vice president for information technology stated that when the campus reactivated the required automatic password changes, some of the older account holder accounts were not included. He further stated that the server service accounts not assigned to a specific individual were accounts used to print reports and provide other server services.

Inadequate control over password expiration and removal of obsolete or unused accounts increases the risk of unauthorized and undetected access to campus systems and confidential data.

### **Recommendation 9**

We recommend that the campus implement automatic account expiration for all accounts, discontinue use of generic accounts that are not assigned to a specific individual, and remove accounts that have not been accessed within the past six months from the system.

### **Campus Response**

We concur. The campus has implemented an automatic account expiration for all accounts. All generic accounts that are not assigned to an individual, other than server service accounts, have been disabled. The campus has also disabled fiscal access for those account holders that have not accessed their accounts for six months or more. Permanent removal will be performed on a periodic basis. Reinstatement of access will only be permitted by written authorization of an appropriate administrator. This was completed in March 2004.

### **DATA CENTER PHYSICAL SECURITY**

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

SAM §4842.2 requires each state agency to establish and maintain physical security measures that provide for management control of physical access to information assets. Physical security practices for each facility must be adequate to protect the most sensitive information technology application housed in that facility.

The associate vice president for information technology stated that after-hour security provisions had not been finalized as part of the recent data center construction because the relocation of campus police had not yet been completed.

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

### **Recommendation 10**

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

### **Campus Response**

We concur. The installation of the physical intrusion detection device to monitor access to the new data center during non-business hours should be completed by May 2004.

## **TRUST FUNDS**

### **TRUST EXPENDITURES**

Trust fund expenditures were not always properly approved. This is a repeat finding from the prior FISMA audit.

Our review of 24 expenditures disclosed that six had not been approved by an individual who was an authorized signatory per the trust agreement.

SAM §19440.1 provides that each trust account established shall be supported by documentation of the persons authorized to withdraw or expend funds and their specimen signature.

The director of accounting services stated that the processing for payment of improperly approved trust expenditures was attributable to acceptance of payment authorization from an individual in the office of an official signatory on a trust agreement, rather than from the official signatory, as well as to oversight.

Failure to obtain proper expenditure authorization increases the risk of inappropriate disbursements.

### **Recommendation 11**

We recommend that the campus strengthen procedures to ensure that trust fund expenditures are properly authorized.

### **Campus Response**

We concur. The campus will strengthen its procedures and be more diligent about ensuring that appropriate individuals are authorizing payments for trust fund accounts. This will be completed by June 2004.

## **TRUST AGREEMENTS**

Trust fund agreements were not always complete, and approval of certain amendments was not documented.

Our review of 16 trust agreements disclosed that:

- ▶ In 12 instances, trust account documentation did not describe instructions for closing the account and the disposition of any unexpended balance.
- ▶ In two instances, approval of proposed amendments by financial management to trust account documentation for elements other than changes for persons authorized to withdraw or expend funds and specimen signatures were not documented. Therefore, we were unable to establish whether the amendments were approved.

SAM §19440.1 states that each trust account established shall be supported by documentation as to the instructions for closing the account and disposition of any unexpended balance.

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 incomplete trust account documentation was associated with long-standing projects, and the lack of documented approval for changes to trust accounts was due to oversight.

Inadequate trust fund administration increases the risk of loss due to poor trust fund administration.

### **Recommendation 12**

We recommend that the campus:

- a. Strengthen controls necessary to maintain complete trust fund agreements.
- b. Require financial management to document approval of amendments to trust agreements.

### **Campus Response**

We concur. The campus will review and obtain updated long-standing trust fund account agreements. Current procedures for the review and updating of trust fund agreements apparently did not capture the older long-standing accounts. Once these accounts are included in the regular annual update review process, procedures will be strengthened. This review will be completed by the end of June 2004. Additionally, financial management will begin documenting approval of amendments to trust agreements. This will begin April 2004.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u><b>Name</b></u>	<u><b>Title</b></u>
James E. Lyons	President
Michael Aguirre	Manager, Logistics and Support Services
Kimberly Carpenter	Records and Registration Coordinator, Admissions and Records
Lisa Chavez	Associate Director, Accounting Services
Edgar Corona	Graduation Clerk, Admissions and Records
Brian Dahm	Director, Accounting Services
Timothy Farris	Director, Administrative Information Systems
Glenda Hart	Manager, Payroll Services
Marcela Hernandez	Application Processor, Admissions and Records
Kathleen Hughes	Director, Business Process Management
Tina Lee	Assistant Director, Human Resources Management
Margaret Love-Nicholson	Asset Management Officer
Penny Mackaig	University Receivables Coordinator, Accounts Receivable
Ayesha Marcel	Administrative Operations Coordinator, University Housing Services
David McCulloch	Assistant Director, Business Process Management
Sheila Moore	Administrative Support Coordinator, Accounting Services
Timothy Mozia	Director of Operations, College of Extended Education
Marcella Panuco	Cashier, Cashier's Office
George A. Pardon	Vice President, Administration and Finance
Cecilia Patz	Assistant Director, Accounting Services
Magaly Pitterson	Supervisor, Cashier's Office
Kent Porter	Director, Faculty Affairs
Lorena Raymundo	Lead Financial Accountant, General Accounting
Kaveh Razaghi	Director, University Housing Services
Mary Ann Rodriguez	Associate Vice President, Administration and Finance
Cesar Uballe	Custodian, University Housing Services
Lynn Weddington	Associate Director, University Housing Services
Emmit Williams	Director, Procurement, Contracts, Logistical and Support Services
James Woods	Director, Admissions and Records
Min Yao	Associate Vice President, Information Technology

## **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 University  
**Dominguez Hills**

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Office of the Vice President of Administration and Finance  
Carson, CA 90747 (310) 243-3750 FAX: (310) 243-3869

March 15, 2004

**RECEIVED**  
**UNIVERSITY AUDITOR**

MAR 16 2004

**THE CALIFORNIA STATE**  
**UNIVERSITY**

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802

Dear Mr. Mandel:

Enclosed please find California State University, Dominguez Hills' response to the FISMA Audit 03-07. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or would like additional information, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "George A. Pardon".

George A. Pardon  
Vice President of Administration and Finance

- c: James E. Lyons, Sr., President  
Brian Dahm, Director, Accounting Services  
Kathleen Hughes, Director, Business Process Management  
Mark Seigle, Director, Human Resources Management  
Emmit Williams, Director, Procurement, Contracts and Logistical Support Services  
Min Yao, Associate Vice President, Information Technology

**CALIFORNIA STATE UNIVERSITY,  
DOMINGUEZ HILLS**

**FISMA  
AUDIT REPORT NO. 03-07**

March 15, 2004

**CASH RECEIPTS**

**Recommendation 1**

We recommend that the campus strengthen procedures to ensure timely completion of application and state university fee reconciliations and establish procedures to reconcile housing revenue to occupancy records.

**Campus Response**

We concur. The campus will revise and strengthen its procedures for reconciliation of admissions applications fees and state university fees in order that they are completed in a timely manner. The university will also develop a procedure to reconcile housing revenue to occupancy records. These procedures will be completed by the end of *June 2004*.

**ACCOUNTS RECEIVABLE**

**BILLINGS FOR SERVICE**

**Recommendation 2**

We recommend that the campus strengthen procedures to ensure the timely compilation of data and execution of service agreements to permit prompt billing of services provided to auxiliary enterprises and third parties.

**Campus Response**

We concur. The campus has developed a database to monitor the renewal of service agreements. It will also review and enhance, as appropriate, processes to collect data in order that billings can be submitted for timely processing for auxiliary organizations and other campuses entities. These new processes and procedures are scheduled to be completed by the end of *July 2004*.

**DISCHARGE OF ACCOUNTABILITY**

**Recommendation 3**

We recommend that the campus re-evaluate the use of discharge of accountability for accounts receivable of \$1,000 or less that have been outstanding for two years or more.

**Campus Response**

We concur. The campus will again evaluate its discharge of accountability procedures for accounts under \$1,000 that are over two years old. The current collection procedures used, however, have successfully collected over \$387,000 over the past two years, at no additional cost to the campus. The majority of these collections have been for outstanding accounts that were under \$1,000. This revaluation will be completed by *July 2004*.

**PURCHASING****Recommendation 4**

We recommend that the campus strengthen procedures and controls to ensure adequate supporting documentation for procurement card purchases.

**Campus Response**

We concur. The Credit Card Manual will be modified to emphasize the necessity to provide appropriate purchasing support documentation. Additionally, credit card holder and support staff that process credit card payments will be reminded of the proper supporting documentation. This will be completed by *May 2004*.

**REVOLVING FUND****Recommendation 5**

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

**Campus Response**

We concur. The campus will review and make any appropriate modifications to its policies and procedures related to documentation required in support of travel expense claims. It will also be more diligent in monitoring travel expense claims for appropriate substantiation of the claims. These will be completed by *July 2004*.

**PAYROLL AND PERSONNEL****Recommendation 6**

We recommend that the campus review and strengthen controls over documentation for involuntary employee separations.

**Campus Response**

We concur. The campus will reassess and enhance the manner in which it processes and documents involuntary separations. This will be completed by *July 2004*.

## FIXED ASSETS

### PROPERTY ACCOUNTING

#### Recommendation 7

We recommend that the campus strengthen controls to ensure that acquisitions are recorded timely.

#### Campus Response

We concur. The campus will enhance monitoring procedures to address the timely recording of property acquisitions into the accounting system. This will be completed by *June 2004*.

### PROPERTY DISPOSITIONS

#### Recommendation 8

We recommend that the campus strengthen property survey controls to ensure the complete and timely preparation of property survey reports and removal of capitalized property from property records.

#### Campus Response

We concur. The campus will re-evaluate and enhance its current processing and monitoring procedures for completing and recording of surveyed property. It will also be more diligent about reporting in a timely manner property that has been stolen and needs to be surveyed. Additionally, enhanced monitoring procedures will be implemented to address the timely removal of capitalized surveyed property items from accounting records. These will be completed by the end of *June 2004*.

## FISCAL INFORMATION TECHNOLOGY

### SECURITY CONTROLS OVER COMPUTER ACCOUNTS

#### Recommendation 9 - *Completed*

We recommend that the campus implement automatic account expiration for all accounts, discontinue use of generic accounts that are not assigned to a specific individual, and remove accounts that have not been accessed within the past six months from the system.

#### Campus Response

We concur. The campus has implemented an automatic account expiration for all accounts. All generic accounts that are not assigned to an individual, other than server service accounts, have been disabled. The campus has also disabled fiscal access for those account holders that have not accessed their accounts for six months or more. Permanent removal will be performed on a periodic basis. Reinstatement of access will only be permitted by written authorization of an appropriate administrator. This was completed in March 2004. *Done/completed*

## DATA CENTER PHYSICAL SECURITY

### Recommendation 10

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

### Campus Response

We concur. The installation of the physical intrusion detection device to monitor access to the new data center during non-business hours should be completed by *May 2004*.

## TRUST FUNDS

### TRUST EXPENDITURES

#### Recommendation 11

We recommend that the campus strengthen procedures to ensure that trust fund expenditures are properly authorized.

### Campus Response

We concur. The campus will strengthen its procedures and be more diligent about ensuring that appropriate individuals are authorizing payments for trust fund accounts. This will be completed by *June 2004*.

### TRUST AGREEMENTS

#### Recommendation 12

We recommend that the campus:

- a. Strengthen controls necessary to maintain complete trust fund agreements.
- b. Require financial management to document approval of amendments to trust agreements.

### Campus Response

We concur. The campus will review and obtain updated long-standing trust fund account agreements. Current procedures for the review and updating of trust fund agreements apparently did not capture the older long-standing accounts. Once these accounts are included in the regular annual update review process, procedures will be strengthened. This review will be completed by the end of *June 2004*. Additionally, financial management will begin documenting approval of amendments to trust agreements. This will begin *April 2004*.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

April 1, 2004

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

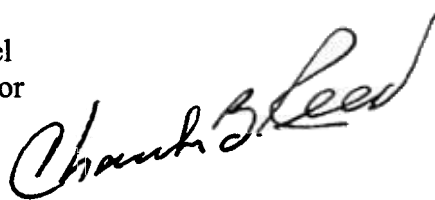
FRESNO

FULLERTON

TO: Mr. Larry Mandel  
University Auditor

HAYWARD

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-07 on *FISMA*,  
California State University, Dominguez Hills

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of April 1, 2004, I accept the response as submitted with the draft final report on *FISMA*, California State University, Dominguez Hills.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/bth

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. James E. Lyons, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS