

FISMA

**CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS**

**Audit Report 07-08
August 10, 2007**

Members, Committee on Audit

Raymond W. Holdsworth, Chair
Kenneth Fong, Vice Chair
Herbert L. Carter George G. Gowgani
Melinda Guzman William Hauck
Ricardo Icaza Glen O. Toney

Staff

University Auditor: Larry Mandel
Senior Director: Janice Mirza
IT Audit Manager: Greg Dove
Internal Auditor: Dominick Owens

**BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY**

CONTENTS

| | |
|-----------------------------|---|
| Executive Summary | 1 |
| Introduction..... | 4 |
| Purpose | 4 |
| Scope and Methodology | 4 |

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

| | |
|--|----|
| Cash Receipts..... | 6 |
| Accounts Receivable..... | 7 |
| Delinquent Accounts | 7 |
| College of Extended and International Education..... | 9 |
| Purchasing..... | 10 |
| Procurement Cards | 10 |
| Open Purchase Orders | 12 |
| Operating Fund | 13 |
| Payroll and Personnel | 14 |
| Employee Separation..... | 14 |
| Undelivered Salary Warrants | 15 |
| Fixed Assets | 16 |

APPENDICES

| | |
|-------------|--------------------------------|
| APPENDIX A: | Personnel Contacted |
| APPENDIX B: | Statement of Internal Controls |
| APPENDIX C: | Campus Response |
| APPENDIX D: | Chancellor's Acceptance |

ABBREVIATIONS

| | |
|-------|--|
| CEIE | College of Extended and International Education |
| CSU | California State University |
| CSUDH | California State University, Dominguez Hills |
| EO | Executive Order |
| FISMA | Financial Integrity and State Manager's Accountability Act |
| HR | Human Resources |
| SAM | State Administrative Manual |
| SCO | State Controller's Office |
| SHC | Student Health Center |
| TEC | Travel and Expense Claim |

EXECUTIVE SUMMARY

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

California State University, Dominguez Hills (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.

We visited the CSUDH campus from April 30, 2007, through June 8, 2007, and made a study and evaluation of the accounting and administrative control in effect as of June 8, 2007. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, purchasing, operating fund, payroll and personnel, and fixed assets. 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 June 8, 2007, taken as a whole, was sufficient to meet the objectives stated above.

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

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

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

CASH RECEIPTS [6]

Cash control weaknesses were found at the student health center. An adequate segregation of duties was not maintained because a single staff member was primarily responsible for purchasing and receiving prescription drugs as well as cashiering duties. In addition, an inventory control system was not maintained over prescription drugs, checks and money orders were not restrictively endorsed upon receipt or by the end of the day, and the nurses used their personal cash to make change instead of the assigned change fund.

ACCOUNTS RECEIVABLE [7]

Pursuit of delinquent payroll and third-party accounts receivable needed improvement. A review of 15 delinquent payroll accounts receivable disclosed that documented collection activity was not timely performed in three instances, and insufficient collection activity for two of these accounts prevented submission of the balances for discharge from accountability or tax offset. This is a repeat finding from the prior FISMA review. A review of ten third-party delinquent receivables for three entities totaling \$71,101 disclosed that the series of collection letters sent did not reference the original past due notice, were not stated in a progressively stronger tone, and did not address further action to be taken. Additionally, no further action was taken on these accounts once the series of collection letters were sent. Finally, administration of accounts receivable at the College of Extended and International Education (CEIE) was insufficient. The aged trial balance for third-party accounts and students awaiting financial aid disbursement did not always accurately depict the proper aging of invoices and reflected outstanding balances for accounts that were paid in full. Three of eight third-party receivables reviewed from the aged trial balance with a combined total of \$3,404 from summer 2005 to fall 2006 were paid in full. No documented follow-up activity was conducted to resolve the CEIE book balances.

PURCHASING [10]

Campus procurement card policy and procedures were not always adequately enforced to ensure that bank statement packets were timely reconciled, timely submitted, and properly supported. A review of 17 procurement card statements for ten cardholders disclosed that nine bank statement packets were not dated by the cardholder and seven were not dated by the approving official. In addition, six bank statement packets were not timely submitted, supporting receipts were not submitted for five transactions totaling \$1,494, photocopies of the original receipts were submitted in two instances for purchases totaling \$453, and one purchase totaling \$1,200 was supported with a price quote rather than an original receipt. Further, a single cardholder had multiple concerns including the submission of price quotes totaling \$1,068, facsimiles totaling \$2,591 in lieu of original receipts, taxes not being charged on some

invoices, no receipts for purchases totaling \$1,014, and an inaccurately completed reconciliation. Lastly, open purchase orders were not always timely investigated and resolved. A review of the open purchase order report as of June 30, 2007, disclosed 384 open purchase orders dated July 1, 2006, with remaining funds totaling \$2,000,861, and the open purchase order monthly/quarterly expediting reports were not completed at the end of each month/quarter.

OPERATING FUND [13]

Travel and salary advances were not always adequately controlled. A review of nine travel advances issued between August 2006 and February 2007 disclosed that eight travel advances totaling \$4,477 had not been cleared as of June 4, 2007, which was 98 to 287 days past the end travel date. A review of eight salary advances issued between September 2005 and March 2007 disclosed that two salary advances totaling \$770 were outstanding for 357 and 612 days as of June 4, 2007, and three salary advances totaling \$395 were recovered between 139 and 279 days following issuance. Documented collection activity for four of the five salary advances was not timely.

PAYROLL AND PERSONNEL [14]

Employee separation procedures did not ensure complete clearance documentation. A review of ten employee separations dated between July 1, 2005, and April 6, 2007, disclosed that in all eight instances where the electronic clearance procedures were followed, notification of the employee's clearance was not submitted to payroll timely. In one other instance, there was no evidence that the employee had been cleared for the return of state assets. In addition, undelivered salary warrants were not always remitted to the State Controller's Office for final escheatment. Seven undelivered salary warrants totaling \$3,502 were on hand more than 90 days (91 to 280 days after the check date) and had not been remitted as of May 2007.

FIXED ASSETS [16]

Property loan forms were not always prepared to authorize the off-campus use of laptop computers. Four of the nine laptops reviewed lacked property loan forms, which document the employee's acceptance of responsibility for the campus equipment used off-campus.

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.
- ▶ Operating fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2005/06 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 1, 2005 to March 31, 2007. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of operating fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ Procedures for initiating, evaluating, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond June 8, 2007. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Cash control weaknesses were found at the student health center (SHC).

We noted that:

- ▶ An adequate segregation of duties was not maintained because a single staff member was primarily responsible for purchasing and receiving prescription drugs as well as cashiering duties.
- ▶ An inventory control system was not maintained over prescription drugs to ensure the accuracy of on-hand balances.
- ▶ Checks and money orders received for deposit at the nurse's station were not restrictively endorsed upon receipt or by the end of the day when the pharmacist was not on duty.
- ▶ The nurses refrained from using the assigned change fund when making change for day-to-day cash collections. Instead, the nurses found it more convenient to use their personal cash.

State Administrative Manual (SAM) §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

Executive Order (EO) 943, *Policy on University Health Services*, dated April 28, 2005, states that procedures must be developed for inventory control and regular removal of outdated, deteriorated, or recalled medications.

SAM §8023 and §8034.1 state that all checks, money orders, and warrants received for deposit will be restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

The director of student health and psychological services stated that limited staffing contributed to only the pharmacist being responsible for ordering and receiving prescription drugs and cashiering duties. She further stated that a perpetual inventory was not implemented due to the limited number of prescriptions, small inventory, and the limited staffing to conduct the inventory. She added that the SHC was unaware of the requirement to restrictively endorse checks as soon as possible after receipt or by the end of the day, and she was unaware of the nurses using their personal cash to make change.

Inadequate control over cash receipts and prescription drug inventory increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Review purchasing, receiving, and cashiering activities at the SHC and take appropriate action to either segregate duties or establish effective mitigating controls.
- b. Establish and implement inventory control procedures for prescription drugs.
- c. Ensure that all checks and money orders received at the SHC are restrictively endorsed by the end of the day.
- d. Enforce use of the assigned change fund for its intended purpose.

Campus Response

We concur.

- a. The director of student health and psychological services has implemented procedures to allow for segregation of duties and effective mitigating controls.
- b. The director has established a process to conduct a complete inventory of pharmacy stock with periodic inventories throughout the year.
- c. A second stamp has been obtained to endorse checks and money orders received at the nurse's station, and a policy has been developed and discussed with all nursing staff to adhere to restrictively endorsing checks and money orders by the end of the same day.
- d. Procedures are in place to ensure that the nursing staff are aware of the need to use only the assigned change fund for the purpose of giving change to patients.

Corrective action has been completed for items a through d.

ACCOUNTS RECEIVABLE

DELINQUENT ACCOUNTS

Pursuit of delinquent payroll and third-party accounts receivable needed improvement.

Payroll

Our review of 15 delinquent payroll accounts receivable dated between January 2005 and August 2006 disclosed that documented collection activity was not timely performed in three

instances. Insufficient collection activity for two of these accounts prevented submission of the balances for discharge from accountability or tax offset. Outstanding receivables for these three employees totaled \$1,063 as of May 31, 2007. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act review.

Third Party

Our review of ten third-party delinquent receivables for three entities totaling \$71,101 as of March 31, 2007, disclosed that the series of collection letters sent did not reference the original past due notice, were not stated in a progressively stronger tone, and did not address further action to be taken. Additionally, no further action was taken on these accounts once the series of collection letters were sent.

SAM §8776.7 provides collection procedures to be employed in the collection of amounts due from employees.

SAM §8790.3 states that offset is normally made only after giving notice to the debtor and providing him/her an opportunity to present any valid objection he/she may have to the use of the offset procedure.

EO 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 from accountability does not release debtors from their obligation to the campus.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables. Further, once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

The interim payroll manager stated her belief that collection letters were needed and acknowledged that some letters were not sent in a timely manner. The director of accounting services stated that the previously used three separate letter process for billing was changed to simplify the process by sending out the same letter each time via mail merge.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that sufficient documented collection efforts are promptly pursued for delinquent payroll and third-party accounts receivable.

Campus Response

We concur. Payroll and accounting services will strengthen existing procedures to ensure that sufficient documented collection efforts are promptly pursued for delinquent payroll and third-party receivables.

Expected completion date: October 2007

COLLEGE OF EXTENDED AND INTERNATIONAL EDUCATION

Administration of accounts receivable at the College of Extended and International Education (CEIE) was insufficient.

We found that:

- ▶ The aged trial balance for third-party accounts and students awaiting financial aid disbursement did not always accurately depict the proper aging of invoices and reflected outstanding balances for accounts that were paid in full. The aged trial balance as of June 5, 2007, totaled \$243,109, which included \$143,109 (59%) more than 31 days past due. The report's aging inaccuracies could not be quantified because the data driving the output permitted an improper portrayal of invoice aging.
- ▶ Three of eight third-party receivables reviewed from the aged trial balance as of June 5, 2007, with a combined total of \$3,404 from summer 2005 to fall 2006 were paid in full. No documented follow-up activity was conducted to resolve the CEIE book balances.

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

The CEIE director of operations stated that the aging report used registration dates as effective dates rather than financial aid disbursement dates. He further stated that in this particular instance, reconciliation problems were due to the complexity and uniqueness of the specific third-party contract and ensuing third-party payment application problems endemic to the Banner system at that time.

Inadequate control over CEIE accounts receivable increases the risk of misstated assets and loss from inappropriate acts and hinders collection activities.

Recommendation 3

We recommend that the campus:

- a. Consider reprogramming the generation of the CEIE aged trial balance to produce a more accurate report or establish an alternate methodology to ensure accurate interpretation of the existing aged trial balance.
- b. Strengthen procedures to ensure that all CEIE accounts receivables and receipts are accurately recorded.

Campus Response

We concur.

- a. CEIE will work closely with accounting services to either reprogram CEIE's aging report to correct any aging inaccuracies or establish an alternate methodology to ensure accurate interpretation of the existing aged trial balance.
- b. CEIE will further strengthen procedures to ensure that all CEIE third-party and other accounts receivables/receipts are accurately recorded.

Expected completion date: November 2007

PURCHASING

PROCUREMENT CARDS

Campus procurement card policy and procedures were not always adequately enforced to ensure that bank statement packets were timely reconciled, timely submitted, and properly supported.

Our review of 17 procurement card statements for ten cardholders between January 2007 and February 2007 disclosed that:

- ▶ Nine bank statement packets were not dated by the cardholder and seven were not dated by the approving official to evidence the timeliness of the reconciliation.
- ▶ Six bank statement packets were not submitted prior to the accounting close date of the following month.
- ▶ Supporting receipts were not submitted for five transactions totaling \$1,494.
- ▶ In two instances, photocopies of the original receipts were submitted for a total of \$453.

- ▶ One purchase totaling \$1,200 was supported with a price quote rather than an original receipt.
- ▶ In addition to the aforementioned findings, a single cardholder had multiple concerns. We found that in two instances, price quotes totaling \$1,068 were submitted in lieu of original receipts. In eight instances, facsimiles totaling \$2,591 were submitted to validate the transactions. In two instances, taxes were not charged on invoices with a combined total of \$984. In three instances, the cardholder did not submit receipts for purchases totaling \$1,014. Additionally, the cardholder's approved reconciliation in February 2007 was not accurately completed. We found a \$930 differential between the bank statement and the approved reconciliation.

California State University, Dominguez Hills (CSUDH), *Credit Card Program Policy Manual*, revised June 2007, requires that the procurement cardholder have several of the following items when reconciling his/her statement: vendor's name and address, description of the items purchased, date of the purchase, quantity ordered, prices paid (unit, extended prices), taxes paid, shipping charges (if applicable), total, and justification. The program administrator is responsible, in part, for monitoring purchases made by the cardholders; approving restricted and prohibited items; post auditing, suspending, or canceling a cardholder's card for its misuse, abuse, or policy violations; advising cardholders and approving officials of inappropriate use of card; and applying appropriate corrective actions for card misuse. The program administrator will forward an e-mail to the credit card user group notifying them of the date that the reconciled statement is due in the procurement and contracting office. Typically, this time period is no less than four working days. Each cardholder and approving official is responsible for ensuring that the reconciled statement is received in the procurement and contracts office by the date advised, and must sign approving the payment of the statement.

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

The director of procurement, contracts, logistical and support services stated that the cardholder and/or the approving official neglected to date the reconciliations and that all statements were received in time to be billed, although they did not coincide with accounting services month-end close date. He further stated that in some cases the vendor gave the cardholder a quotation sheet instead of a receipt and in instances where orders were placed over the phone, a faxed receipt was obtained. He also stated his belief that the one cardholder needed additional training in reconciling the statement and documentation requirements.

Insufficient control over procurement cards increases the risk of loss from inappropriate acts.

Recommendation 4

We recommend that the campus strengthen enforcement of procurement card dating requirements, submission deadlines, and supporting documentation.

Campus Response

We concur. Procurement, contracts, logistical and support services has implemented the Pro-Card PeopleSoft module that will require cardholders to reconcile their statement online by a specific due date; has reestablished its monthly post-audit requirement of all statements to check for dates, authorization, and proper documentation; and will be updating the Credit Card Manual and hosting annual training sessions for Pro-Card users.

Expected completion date: Credit Card Manual by September 2007, training by January 2008

OPEN PURCHASE ORDERS

Open purchase orders were not always timely investigated and resolved.

Our review of the open purchase order report as of June 30, 2007, disclosed 384 open purchase orders dated July 1, 2006, with remaining funds totaling \$2,000,861. These purchase orders were created prior to July 1, 2006, and were transferred from the old Tamis system to PeopleSoft during implementation. Documentation was not on file to support the review and disposition of these outstanding orders. We also noted that the open purchase order monthly/quarterly expediting reports were not completed at the end of each month/quarter.

The CSUDH *Receiving, Expediting and Outstanding Purchase Orders Policy* states, in part, that the procurement and contracts office is responsible for processing a monthly/quarterly expediting report at the end of each month/three months for open orders.

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

The director of procurement, contracts, logistical and support services stated that open purchase orders were not always timely reviewed due to the reduction in key staff positions, one being the expeditor. He further stated that a review of the open purchase order monthly/quarterly expediting report was not completed due to the reduction in key staff.

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

Recommendation 5

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

Campus Response

We concur. Procurement, contracts, logistical and support services has reinstated its expediting policy and has hired a staff person to oversee the process of running monthly reports and following up on long-outstanding open orders.

Corrective action has been completed.

OPERATING FUND

Travel and salary advances were not always adequately controlled.

Our review of nine travel advances issued between August 2006 and February 2007 and eight salary advances issued between September 2005 and March 2007 disclosed that:

- ▶ Eight travel advances totaling \$4,477 with travel end dates from August 21, 2006, to February 26, 2007, had not been cleared as of June 4, 2007, which was 98 to 287 days past the end travel date.
- ▶ Two salary advances totaling \$770 were outstanding for 357 and 612 days as of June 4, 2007.
- ▶ Three salary advances totaling \$395 were recovered between 139 and 279 days following issuance.
- ▶ Documented collection activity for four of the five aforementioned salary advances was not timely. The insufficient collection activity for two of the four accounts prevented submission of the balances for discharge from accountability or tax offset.

SAM §8116.2 requires the submittal of a properly prepared travel and expense claim (TEC) to substantiate travel expenses as soon as possible after the trip or at least once a month.

CSU directive, HR 2006-25, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated December 18, 2006, states, in part, that the TEC must be submitted within a reasonable period of time not to exceed 60 days.

State University Administrative Manual §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 §8776.7 provides collection procedures to be employed in the collection of amounts due from employees.

The director of accounting services stated that due to job reassignments and the implementation of PeopleSoft Finance, it was only recently that follow-up letters pertaining to the outstanding travel advances were sent out. The interim payroll manager stated that due to the implementation of PeopleSoft, the payroll staff did not receive the salary advance reconciliation in a timely manner or did not follow-up to ensure salary advances were cleared timely.

Insufficient control over travel and salary advances increases the risk that monies may not be available or be expended for inappropriate purposes and reduces the likelihood of collection.

Recommendation 6

We recommend that the campus strengthen controls to improve the timely recovery of travel and salary advances.

Campus Response

We concur. Payroll and accounting services has strengthen controls to improve the timely recovery of salary and travel advances by setting up a system to ensure recovery in a timely manner and documented collection activity is adequate. Plus, additional emphasis has been placed on the monitoring of travel advances.

Corrective action has been completed.

PAYROLL AND PERSONNEL

EMPLOYEE SEPARATION

Employee separation procedures did not ensure complete clearance documentation.

Our review of ten employee separations dated between July 1, 2005, and April 6, 2007, disclosed that:

- ▶ In all eight instances where the electronic clearance procedures were followed, notification of the employee's clearance was not submitted to payroll timely. Complete clearance documentation was submitted from 64 to 256 days after the employee's separation.
- ▶ In one other instance, there was no evidence that the employee had been cleared for the return of state assets.

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 assistant vice president of human resources management stated that human resources had not been able to notify payroll in a timely manner because the responsible campus department with the separating employee either delayed responding or was non-responsive. The interim payroll manager stated that the campus implemented a new electronic checkout process; however, the system did not work as expected and there were a number of problems with saving the status changes.

Insufficient administration of employee separations increases the risk of loss of state funds and inappropriate use of state resources.

Recommendation 7

We recommend that the campus either strengthen electronic separation procedures to ensure timely and complete clearance documentation or establish mitigating controls to accomplish the same objective when the electronic system is inoperable.

Campus Response

We concur. Human resources management will work with payroll and information technology departments to coordinate the separation checkout process. Software adjustments will be reviewed to assist with the problem, and campus training/communications will be initiated to remind affected employees about their responsibilities for the checkout process.

Expected completion date: December 2007

UNDELIVERED SALARY WARRANTS

Undelivered salary warrants were not always remitted to the State Controller's Office (SCO) for final escheatment.

We found that seven undelivered salary warrants totaling \$3,502 were on hand more than 90 days (91 to 280 days after the check date) and had not been remitted as of May 2007.

SAM §8580.5 states that salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll office. Warrants not delivered within 90 calendar days of receipt must be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund. Agencies will maintain a subsidiary ledger of all amounts credited to and disbursed from the escheat revenue accounts.

The interim payroll manager stated that the various departments were unaware of the procedures regarding the return of undelivered salary warrants to the cashier's office.

Untimely remittance of undelivered warrants increases the risk of misappropriated funds.

Recommendation 8

We recommend that the campus strengthen procedures to ensure that undelivered salary warrants are properly handled and timely remitted to the SCO when required.

Campus Response

We concur. The campus has notified the warrant coordinators in all departments of the procedures to ensure that undelivered salary warrants are properly handled and returned to the cashier's department to be remitted to the SCO when required. In addition, the cashier's department will send the payroll department a list of undelivered salary warrants on a monthly basis.

Expected completion date: September 2007

FIXED ASSETS

Property loan forms were not always prepared to authorize the off-campus use of laptop computers.

We found that four of the nine laptops reviewed lacked property loan forms, which document the employee's acceptance of responsibility for the campus equipment used off-campus.

CSUDH, *Property Requiring Special Handling Policy* states that when circumstances require that university property be taken off-campus, the dean or department head must authorize the loan and record the transaction on a property loan form.

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

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

The director of procurement, contracts, logistical and support services stated that the department that purchased the equipment was unaware that a property loan form was required for off-campus equipment use. He further stated that the lack of key staff over the past several months and the redirection of personnel to PeopleSoft implementation had lead the department away from its normal proactive approach to maintaining fixed assets.

Failure to utilize property loan forms increases the risk of unauthorized use and loss of state property.

Recommendation 9

We recommend that the campus enforce adherence to the use of property loan forms for off-campus use of all university equipment.

Campus Response

We concur. Procurement, contracts, logistical and support services has begun to update its property loan database and to notify the campus community of property and equipment loan policies.

Expected completion date: September 2007

APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u> | <u>Title</u> |
|--------------------|---|
| Mildred García | President |
| Boice M. Bowman | Interim President (At time of review) |
| Christina Baltazar | Accounting Technician, College of Extended and International Education (CEIE) |
| Ron Bergmann | Acting Associate Vice President of Information Technology and Chief Information Officer |
| James Bersig | Director, Common Management Systems |
| Lisa Chavez | Director, Accounting Services |
| Timothy Farris | Director, Administrative Information Systems |
| Tomoko Fukuda | Interim Payroll Manager, Payroll Services |
| Dawit Haile | Trust Accountant, Accounting Services |
| Dovie Harness | Cashiering Coordinator/Supervisor, Student Financial Services |
| Nathlyn Hirohama | Network Analyst |
| Iris Jonas | Accounting Technician, Accounting Services |
| Lu Kaaria | Assistant to the Associate Director, University Housing Services |
| Janie MacHarg | Director, Student Health and Psychological Services |
| Ayesha Marcel | Administrative Operations Coordinator, University Housing Services |
| David McCulloch | Assistant Director, Business Process Management |
| Gilberte Mikel | Payroll Technician, Payroll Services |
| Timothy Mozia | Director of Operations, CEIE |
| Marcella Panuco | Cashier, Cashier's Office |
| Gayle Ball Parker | Director, University Outreach |
| Francisco Quinonez | Manager, Procurement, Contracts, Logistical and Support Services |
| Lorena Raymundo | Manager, Accounting Services |
| Kaveh Razaghi | Director, University Housing Services |
| Mary Ann Rodriguez | Vice President, Administration and Finance |
| Clifford Ruddick | Accounts Payable Supervisor, Accounts Payable |
| Mark Seigle | Assistant Vice President, Human Resources Management |
| Kiran Sharma | Charge Nurse, Student Health Center |
| Lyda Stukes | Assistant to the Director, Procurement, Contracts, Logistical and Support Services |
| Fabiola Tene | General Accountant, Accounting Services |
| Karen Wall | Associate Vice President, Administration and Finance |
| Lynn Weddington | Associate Director, University Housing Services |
| Emmit Williams | Director, Procurement, Contracts, Logistical and Support Services |

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



California State University
Dominguez Hills

Office of the Vice President for Administration and Finance

1000 E. Victoria Street – WH B470 Carson, CA 90747 (310) 243-3750 FAX (310) 234-3869

August 31, 2007

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

RECEIVED
UNIVERSITY AUDITOR

SEP - 4 2007

THE CALIFORNIA STATE
UNIVERSITY

Dear Mr. Mandel:

Enclosed please find California State University, Dominguez Hills' response to the FISMA Audit 07-08 dated July 31, 2007. 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,

MARodriguez

Mary Ann Rodriguez
Vice President of Administration and Finance

c: Mildred García, President
Boice Bowman, Vice President for Student Affairs
Lisa Chavez, Director, Accounting Services
Margaret Gordon, Dean, College of Extended and International Education
Janie MacHarg, Director, Student Health and Psychological Services
Mark Seigle, Assistant Vice President, Human Resources Management
Elcee Teng, Payroll Manager
Karen Wall, Associate Vice President, Administration and Finance
Emmit Williams, Director, Procurement, Contracts, Logistical and Support Services

FISMA

**CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS**

**Audit Report 07-08
August 10, 2007**

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Review purchasing, receiving, and cashiering activities at the SHC and take appropriate action to either segregate duties or establish effective mitigating controls.
- b. Establish and implement inventory control procedures for prescription drugs.
- c. Ensure that all checks and money orders received at the SHC are restrictively endorsed by the end of the day.
- d. Enforce use of the assigned change fund for its intended purpose.

Campus Response

We concur.

- a. The director of student health and psychological services has implemented procedures to allow for segregation of duties and effective mitigating controls.
- b. The director has established a process to conduct a complete inventory of pharmacy stock with periodic inventories throughout the year.
- c. A second stamp has been obtained to endorse checks and money orders received at the Nurse's station, and a policy has been developed and discussed with all nursing staff to adhere to restrictively endorsing checks and money orders by the end of the same day.
- d. Procedures are in place to ensure that the nursing staff are aware of the need to use only the assigned change fund for the purpose of giving change to patients.

Corrective action has been completed for items a through d.

ACCOUNTS RECEIVABLE

DELINQUENT ACCOUNTS

Recommendation 2

We recommend that the campus strengthen procedures to ensure that sufficient documented collection efforts are promptly pursued for delinquent payroll and third-party accounts receivable.

Campus Response

We concur. Payroll and accounting services will strengthen existing procedures to ensure that sufficient documented collection efforts are promptly pursued for delinquent payroll and third-party receivables.

Expected completion date: October 2007

COLLEGE OF EXTENDED AND INTERNATIONAL EDUCATION

Recommendation 3

We recommend that the campus:

- a. Consider reprogramming the generation of the CEIE aged trial balance to produce a more accurate report or establish an alternate methodology to ensure accurate interpretation of the existing aged trial balance.
- b. Strengthen procedures to ensure that all CEIE accounts receivables and receipts are accurately recorded.

Campus Response

We concur.

- a. College of extended & international education will work closely with accounting services to either reprogram CEIE's aging report to correct any aging inaccuracies, or establish an alternate methodology to ensure accurate interpretation of the existing aged trial balance.
- b. College of extended & international education will further strengthen procedures to ensure that all CEIE third party and other accounts receivables/receipts are accurately recorded.

Expected completion date: November 2007

PURCHASING

PROCUREMENT CARDS

Recommendation 4

We recommend that the campus strengthen enforcement of procurement card dating requirements, submission deadlines, and supporting documentation.

Campus Response

We concur. Procurement, contracts, logistical and support services has implemented the Pro-Card PeopleSoft module that will require cardholders to reconcile their statement on-line by a specific due date; has reestablished its monthly post audit requirement of all statements to check for dates, authorization and proper documentation; and will be updating the Credit Card Manual and hosting annual training sessions for pro-card users.

Expected completion date: Credit Card Manual by September 2007, Training by January 2008

OPEN PURCHASE ORDERS

Recommendation 5

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

Campus Response

We concur. Procurement, contracts, logistical and support services has reinstated its expediting policy and has hired a staff person to oversee the process of running monthly reports and following up on long standing open orders.

Corrective action has been completed.

OPERATING FUND

Recommendation 6

We recommend that the campus strengthen controls to improve the timely recovery of travel and salary advances.

Campus Response

We concur. Payroll and accounting services has strengthened controls to improve the timely recovery of salary and travel advances by setting up a system to ensure recovery in a timely manner and documented collection activity is adequate; plus, additional emphasis has been placed on the monitoring of travel advances.

Corrective action has been completed.

PAYROLL AND PERSONNEL

EMPLOYEE SEPARATION

Recommendation 7

We recommend that the campus either strengthen electronic separation procedures to ensure timely and complete clearance documentation or establish mitigating controls to accomplish the same objective when the electronic system is inoperable.

Campus Response

We concur. Human resources management will work with payroll and information technology departments to coordinate the separation checkout process; software adjustments will be reviewed to assist with the problem; and campus training/communications will be initiated to remind affected employees about their responsibilities for the checkout process.

Expected completion date: December 2007

UNDELIVERED SALARY WARRANTS

Recommendation 8

We recommend that the campus strengthen procedures to ensure that undelivered salary warrants are properly handled and timely remitted to the SCO when required.

Campus Response

We concur. The campus has notified the warrant coordinators in all departments of the procedures to ensure that undelivered salary warrants are properly handled and returned to the cashier's department to be remitted to the SCO when required; in addition, the cashier's department will send the payroll department a list of undelivered salary warrants on a monthly basis.

Expected completion date: September 2007

FIXED ASSETS

Recommendation 9

We recommend that the campus enforce adherence to the use of property loan forms for off-campus use of all university equipment.

Campus Response

We concur. Procurement, Contracts, Logistical and Support Services has begun to update its Property Loan Database and to notify the campus community of Property and Equipment Loan policies.

Expected completion date: September 2007


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 20, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

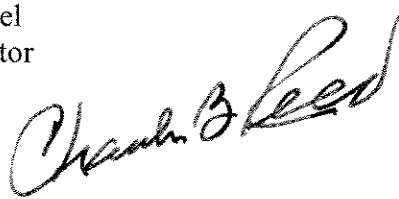
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 07-08 on *FISMA*,
California State University, Dominguez Hills

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of September 20, 2007, I accept the response as submitted with the draft final report on *FISMA*, California State University, Dominguez Hills.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Mildred García, President
Ms. Karen J. Wall, Associate Vice President, Administration and Finance

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS