

SPECIAL INVESTIGATION
CALIFORNIA STATE UNIVERSITY
FULLERTON

Report Number 01-91
March 5, 2001

Members, Committee on Audit

Frederick W. Pierce, IV, Chair
Harold Goldwhite, Vice Chair
Murray L. Galinson Shailesh J. Mehta
Neel I. Murarka Stanley T. Wang

Staff

University Auditor: Larry Mandel
Senior Director: Mike Redmond
Audit Manager: Nate Clark

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY



THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • FRESNO • FULLERTON • HAYWARD • HUMBOLDT
LONG BEACH • LOS ANGELES • MARITIME ACADEMY • MONTEREY BAY • NORTHRIDGE • POMONA • SACRAMENTO
SAN BERNARDINO • SAN DIEGO • SAN FRANCISCO • SAN JOSE • SAN LUIS OBISPO • SAN MARCOS • SONOMA • STANISLAUS

OFFICE OF THE UNIVERSITY AUDITOR

March 5, 2001

Report #0191

Dr. Charles Reed
Chancellor
The California State University
Long Beach, CA 90802


Dear Dr. Reed:

Pursuant to a request from your office on January 19, 2001, the Office of the University Auditor has conducted an investigation of possible misappropriation of assets at California State University, Fullerton (CSUF). Our investigation was predicated upon allegations of inappropriate disbursements of funds within the campus' Enrollment Management/University Outreach Department (University Outreach).

Our examination was conducted in accordance with generally accepted investigative techniques, which included, but were not limited to, examination of books and records, voluntary interviews with appropriate CSUF and University Outreach personnel, and other such evidence-gathering procedures as necessary under the circumstances.

Included within the report, along with our conclusion as to whether there was a misappropriation of assets, are specific recommendations which we believe would benefit the campus' operation of its University Outreach Department.

Sincerely,


Larry Mandel
University Auditor

LM:ac

CONTENTS

EXECUTIVE SUMMARY

Executive Summary.....	1
------------------------	---

INTRODUCTION

Allegations.....	2
Background.....	2
Scope and Method of Investigation.....	3

RESULTS OF INVESTIGATION

Results of Investigation.....	4
-------------------------------	---

RECOMMENDATIONS

Recommendations.....	5
----------------------	---

APPENDICES

Appendix A: Campus Response	
Appendix B: Chancellor’s Acknowledgement of Campus Response	

EXECUTIVE SUMMARY

ALLEGATIONS

- Funds advanced to the CSU, Fullerton Enrollment Management/University Outreach Department to pay for staff training were misappropriated and used for a wedding shower and a baby shower.
- For the period February 1, 1999 to present, certain funds under the control of Enrollment Management/University Outreach were misappropriated and used for other than authorized purposes.

INVESTIGATION RESULTS

- No misappropriation was found. However, two \$400.00 requests for checks, drawn from a CSUF Foundation account, were misrepresented as advances for student and staff training. The advanced monies were used to fund a wedding shower for the assistant to the director of University Outreach (October 4, 2000) and a baby shower for the director (December 6, 2000). The total actual cost of the two events after the advances were cleared was \$609.85.
- A review of forty-two disbursements from the Foundation account processed between February 1, 1999 and January 5, 2001, identified no evidence of misappropriation. However, we found two additional instances of misrepresentation, and numerous instances of improper, unsupported and/or misauthorized disbursements.

INVESTIGATION RESULTS – ANCILLARY FINDINGS

- The funds described as the CSU Counselors Conference Fund (Account) were being held in a campus auxiliary organization agency account by the CSUF Foundation (Foundation). Such funds, when originally received, should have been maintained in a state account as required by CSU policy.
- The Account application in place since 1995 was not properly completed by University Outreach. The Account application lacked clarity as to the sources and uses of funds, and, therefore, University Outreach staff mistakenly viewed the account as not having restrictions. The Account application also did not specify the disposition of unexpended funds.
- The individual who authorized the advances for the wedding and baby shower did so without the benefit of documented support and a complete understanding of the planned use of the funds. Further, that individual did not review or approve supporting documentation submitted to the Foundation to clear the advance.
- Typically, University Outreach staff did not provide supporting documentation with check request forms. The Foundation's accounts payable staff generally released payment based upon the authenticity of the authorizer's signature and the reasonableness of the explanation documented on the check request, though we noted instances where an individual who had not been granted disbursement authorization approved several disbursements.

INTRODUCTION

ALLEGATIONS

A prior student employee of University Outreach, presenting himself as a member of the general public, provided certain information to the CSUF campus president and to the Chancellor of the California State University (CSU) alleging misappropriation of funds. On January 19, 2001, the Chancellor requested a preliminary review of the allegations to determine if predication existed to warrant further investigation. A review was initiated by the CSUF president at the same time.

Specific allegations were made by the complainant that: (1) on October 4, 2000, a wedding shower was provided for the assistant to the director of University Outreach and billed as staff training; (2) on December 6, 2000, a baby shower was provided for the director of University Outreach and billed as staff training; and (3) other incidences of misappropriation of funds had occurred within University Outreach since February 1, 1999. Specific documentation related to the first two items was also received by the Chancellor and president. Our review of the documentation received, our review of additional documentation on hand at the campus, and interviews with campus personnel led to our determination that further investigation was warranted.

BACKGROUND

On September 4, 1992, individuals within University Outreach requested that the Foundation open an agency account for monies to be received and disbursed in conjunction with its High School Counselor Conference, "Making the Right Connection". The purpose of this outreach conference was to provide a forum where high school personnel and outreach staff could develop a plan of action for students applying for admission to CSUF for the 92-93 year.

A Foundation agency account application was completed on September 9, 1992. The campus controller's office approved the agency account on September 21, 1992. The application identified conference fees as the source of funds and indicated that the funds would be used for office supplies and lunch for the conference. Although the agency account appeared to be established for one particular conference, the application specified neither an account closure date nor an indication of the disposition of unexpended funds upon account closure. Further, when established, there were no documented restrictions placed on the account.

In September 1993, the since retired University Outreach director was added as an authorized account signer, and the account name was changed from "Making the Right Connection" to "CSU Counselor Conference". Based upon a report of transactions processed between September 1993 and June 1994, it would appear that a number of outreach conferences were conducted during that period.

In October 1995, account information was updated to reflect that the funds in the account were to be used for conferences, expenses associated with the outreach program, and community activities. Again, no documented restrictions or specifications were placed on the source of funds to be deposited into the account or the types of expenses that might be charged against it.

The last account update was effective September 1, 1998. At that time, the University Outreach associate director was added as an authorized (account) signer.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegations, interviews were conducted with the individuals involved in the preparation and authorization of the transactions that resulted in the two \$400 advances for the wedding and baby shower. In addition, we interviewed other members of the campus community and the complainant.

We also reviewed the Foundation's account file for the CSU Counselor Conference Fund, and all 1999 and 2000 disbursements from the Account to determine whether or not transactions were properly presented, including appropriate authorization and adequate supporting documentation.

RESULTS OF INVESTIGATION

ALTHOUGH SPECIFIC ADVANCES REQUESTED FOR TRAINING WERE NOT MISAPPROPRIATED, THEY WERE MISREPRESENTED.

Based upon a review of pertinent documentation and the results of interviews with the individuals who ordered advances, prepared check request paperwork, and authorized transactions, we conclude that misrepresentation, rather than misappropriation, took place in both instances. In fact, the two \$400.00 advances requested from the Foundation account, to be used for staff training, were instead used to fund a wedding shower that took place on October 4, 2000, and a baby shower that took place on December 6, 2000.

ADDITIONAL CHARGES OF MISAPPROPRIATION OF FUNDS WERE UNSUBSTANTIATED. HOWEVER, MISREPRESENTATION, MISAUTHORIZATION, IMPROPER USAGE, AND LACK OF DOCUMENTATION WERE FOUND.

Based upon our review of disbursements for the 1999 and 2000 calendar years, we conclude that charges of misappropriation of funds appear to be unsubstantiated. However, we found instances of misrepresentation, misauthorization, improper usage and lack of documentation during that time period. A summary of these findings indicates:

- Misrepresentation: we found two additional instances where the disbursements, approved as training funds, were used for a retirement dinner and a contribution to a picnic;
- Misauthorization: we found three instances where payment was approved by a person not granted authorization responsibility. Each instance involved participation in a scholarship golf tournament;
- Improper Usage: we found nine instances where funds were inappropriately expended relative to the purpose of the fund. These included disbursements for a student hospital bill, sympathy flowers, employee and guest attendance at a fundraiser, student grants, welcome to Fullerton day event prize money, MSAT exam and a donation to a student association conference; and
- Lack of Documentation: the campus was unable to provide documentation in support of four disbursements. Three of the disbursements were for staff training, while the other involved the painting of a backdrop for an outreach event.

RECOMMENDATIONS

Our investigation was administrative in nature. Conclusions drawn were made within that context. Recommendations that would mitigate the recurrence of similar findings in the future are presented below.

1. *Misrepresented Activities*

We recommend that the campus take the actions necessary to ensure that similar instances of misrepresentation do not occur in the future.

Campus Response:

We concur. We believe that nearly 100% of our campus community of approximately 35,000 would not knowingly and deliberately misrepresent the nature of their activities, financial or otherwise. Our goal is to effectively manage risk, and we strive to continuously improve in this regard. As such, we rely upon a set of prudent and cost-effective internal controls, well-established and communicated procedures, post-audit processes and the integrity of our campus community to properly utilize and protect university resources.

We will also strengthen our internal controls, including requiring account signators/approving officials to obtain and review complete documentation, e.g., proposals, agendas, attendance lists, etc., before approving a transaction or clearing an advance. Our response to recommendation 3, below, provides additional detail regarding improvements we are making to internal controls.

2. *Account Location*

We recommend that the campus transfer funds remaining in the Foundation CSU Counselor Conference account to an appropriate campus account and review all agency funds within auxiliary organizations which may contain campus funds and have such funds immediately transferred to state accounts.

Campus Response:

We concur. Upon completing the first phase of our campus investigation, we froze this account. The funds in this account will be transferred to an appropriate university account.

In 2000, the auxiliary organizations affiliated with Cal State Fullerton were the first auxiliaries in the system to undergo compliance and internal controls audits pursuant to new Trustee policy. This audit was extremely beneficial to management, and we have been working diligently to implement the recommendations from the audit. As part of our work, we are reviewing all accounts in all auxiliary organizations. We will complete the recommended scope of review and transfer any resultant funds to properly established university accounts. We will complete this action by May 31, 2001.

3. Account Administration

We recommend that the campus:

- a. make a determination as to whether or not University Outreach requires a counselor conferences trust account. If so, the campus should update and enforce restrictions on sources and uses of account funds and eventual disposition of non-used funds;
- b. document and communicate account authorization control standards to account authorized signers;
- c. ensure that account authorizers understand their responsibility to ensure the propriety (i.e., transaction proper, documentation complete, expenditures supported) of account transactions;
- d. require account authorizers to approve accounting transactions and support documentation used to clear authorized advances;
- e. reconsider assigning primary account signing authority to individuals below department head; and,
- f. require documented support to accompany all requests for advances provided to the account signer for authorization and the accounts payable technician for processing.

Campus Response:

- a. We concur. As previously indicated, the account has been frozen pending our review. If our review determines that a trust account is necessary and appropriate, we will ensure that the trust account agreement is very specific as to the sources and uses of account funds, indicates the disposition of any unexpended funds and will enforce restrictions with respect to the sources and uses of funds. We will complete our review in March, 2001.
- b. We concur. We will be improving and reissuing account authorization control standards to account authorized signers. We will complete this item in March, 2001.
- c. We concur. We will be improving and reissuing guidelines and procedures which ensure that account holders understand their responsibility to ensure the propriety of account transactions. We will complete this item in March, 2001.
- d. We concur. We have implemented this recommendation.
- e. We concur. We will implement this recommendation in March, 2001.
- f. We concur. We have implemented this recommendation.

In addition to the above actions, the campus is improving and reissuing Presidential Directive 11, *Administrative Guidelines for the Expenditure of University Funds*, reviewing and improving existing training programs and developing additional on-going financial management training programs.



Office of the President
(714) 278-3456 / Fax (714) 278-2649

RECEIVED
University Auditor

MAR 2001

**The California State
University**

Date: February 28, 2001

To: Larry Mandel, University Auditor
The California State University

From: Milton A. Gordon
President *mag*

Subject: Campus Response to Recommendations of Audit Number
01-91, *Special Investigation* at California State University, Fullerton

Enclosed is our campus response to Audit Number 01-91, Special Investigation at California State University, Fullerton for incorporation into the final report.

We appreciate the assistance of your office in this matter and will implement the recommendations as expeditiously as possible.

MAG:nm

c: Mr. Patrick Carroll, Esq., University Counsel, Office of General Counsel, The CSU
Ms. Sherri Newcomb, Chief Financial Officer, CSU, Fullerton
Dr. Robert Palmer, Vice President for Student Affairs, CSU, Fullerton

California State University, Fullerton
Campus Response
Report Number 01-91 *Special Investigation*
Office of the University Auditor
The California State University System

Recommendation 1

“Misrepresented Activities

We recommend that the campus take the actions necessary to ensure that similar instances of misrepresentation do not occur in the future.”

Campus Response

We concur. We believe that nearly 100% of our campus community of approximately 35,000 would not knowingly and deliberately misrepresent the nature of their activities, financial or otherwise. Our goal is to effectively manage risk, and we strive to continuously improve in this regard. As such, we rely upon a set of prudent and cost-effective internal controls, well-established and communicated procedures, post-audit processes and the integrity of our campus community to properly utilize and protect university resources.

We will also strengthen our internal controls, including requiring account signators/approving officials to obtain and review complete documentation, e.g., proposals, agendas, attendance lists, etc., before approving a transaction or clearing an advance. Our response to recommendation 3, below, provides additional detail regarding improvements we are making to internal controls.

Recommendation 2

“Account Location

We recommend that the campus transfer funds remaining in the Foundation CSU Counselor Conference account to a campus trust account and review all agency funds within auxiliary organizations which may contain state funds and have such funds immediately transferred to state accounts.”

Campus Response

We concur. Upon completing the first phase of our campus investigation, we froze this account. The funds in this account will be transferred to an appropriate university account.

In 2000, the auxiliary organizations affiliated with Cal State Fullerton were the first auxiliaries in the system to undergo compliance and internal controls audits pursuant to new Trustee policy. This audit was extremely beneficial to management, and we have been working diligently to implement the recommendations from the audit. As part of our work, we are reviewing all accounts in all auxiliary organizations. We will complete the recommended scope of review and transfer any resultant funds to properly established university accounts. We will complete this action by May 31, 2001.

Recommendation 3

“Account Administration

We recommend that the campus:

- a. make a determination as to whether or not University Outreach requires a conferences trust account. If so, the campus should update and enforce restrictions on sources and uses of account funds and eventual disposition of non-used funds;*
- b. document and communicate account authorization control standards to account authorized signers;*
- c. ensure that account authorizers understand their responsibility to ensure the propriety (i.e., transaction proper, documentation complete, expenditures supported) of accounting transactions;*
- d. require account authorizers to approve accounting transactions and support documentation used to clear authorized advances;*
- e. reconsider assigning primary account signing authority to individuals below department head; and*
- f. require documented support to accompany all requests for advances provided to the account signer for authorization and the accounts payable technician for processing.”*

Campus Response

- a. We concur. As previously indicated, the account has been frozen pending our review. If our review determines that a trust account is necessary and appropriate, we will ensure that the trust account agreement is very specific as to the sources and uses of account funds, indicates the disposition of any unexpended funds and will enforce restrictions with respect to the sources and uses of funds. We will complete our review in March, 2001.
- b. We concur. We will be improving and reissuing account authorization control standards to account authorized signers. We will complete this item in March, 2001.
- c. We concur. We will be improving and reissuing guidelines and procedures which ensure that account holders understand their responsibility to ensure the propriety of account transactions. We will complete this item in March, 2001.
- d. We concur. We have implemented this recommendation.
- e. We concur. We will implement this recommendation in March, 2001.
- f. We concur. We have implemented this recommendation.

In addition to the above actions, the campus is improving and reissuing Presidential Directive 11, *Administrative Guidelines for the Expenditure of University Funds*, reviewing and improving existing training programs and developing additional on-going financial management training programs.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

March 5, 2001

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed 

HAYWARD

SUBJECT: Draft Final Report Number 01-91 on *Special Investigation*,
California State University, Fullerton

HUMBOLDT

LONG BEACH

LOS ANGELES

In response to your memorandum of March 5, 2001, I accept the response as submitted with the draft final report on Special Investigation, California State University, Fullerton.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/ac

POMONA

Enclosure

SACRAMENTO

cc: Dr. Milton A. Gordon, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS