

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
NORTHRIDGE**

**Report Number 04-04  
September 27, 2004**

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## **ABBREVIATIONS**

CSU	California State University
CSUN	California State University, Northridge
FISMA	Financial Integrity and State Manager's Accountability Act
HRIS	Human Resource Information Systems
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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## 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 *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, Northridge (CSUN) 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 (SAM), Education Code, Title 5, and Trustee policy.

We visited the CSUN campus from March 8, 2004, through April 22, 2004, and made a study and evaluation of the accounting and administrative control in effect as of April 22, 2004. 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 receivables, revolving fund, 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, CSUN's accounting and administrative control in effect as of April 22, 2004, 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 [6]**

Certain activities that impact the control environment for cash receipts needed improvement. There was no written record of individuals with the combination to the safe and the date the combination was last changed at the college of extended learning; the safe combination at the department of intercollegiate athletics was not changed following the separation of an individual with knowledge of the present combination; and cash and checks received at residential life and university conference services were accessible to multiple staff members during the business day and not adequately secured overnight. Additionally, checks were not restrictively endorsed on the day of receipt at the admissions and records office, and cash receipts were transferred from admissions and records to main cashiering without the use of transfer receipts. Further, application and state university fee reconciliations were not always prepared in a timely manner. Application fee reconciliations had not been prepared during the past two fiscal years ended June 30, 2002 and 2003. The state university fee reconciliations for fall 2001 was not completed until June 12, 2002, while the reconciliations for fall 2002 and spring 2003 were not completed until July 23, 2003.

### **ACCOUNTS RECEIVABLE [8]**

Billings to auxiliary organizations for services rendered were not always timely invoiced and properly supported. A review of 12 invoices disclosed that five were prepared between 4 and 18 months after services were provided, and supporting documentation was not sufficient to determine whether two of the five invoices were complete and accurate. In addition, all available options to resolve delinquent accounts were not pursued. Collection efforts for non-student receivables did not include the use of a series of collection letters stated in a progressively stronger tone, and a review of 20 student receivables disclosed no evidence of collection efforts in five instances. Further, the campus had not written off or sought discharge from accountability for the past two years. A review of 16 non-student accounts receivable disclosed that the businesses were no longer operating or had filed bankruptcy in five instances.

### **PURCHASING [11]**

Campus procurement card controls did not ensure that approval of cardholder statements was adequately documented and transactions that exceeded purchase limits were authorized. A review of 15 procurement card statements disclosed that documentation was not available to evidence the individuals who had reviewed and approved the cardholder statements and, in four instances, single and/or monthly purchase limits were exceeded without proper documentation of authorization.

## **REVOLVING FUND [12]**

Salary advances were neither properly supported nor collected in a timely manner. A review of ten salary advances disclosed that supporting documentation and evidence of collection efforts were not available for any of the advances reviewed. In addition, Department of Finance approval had not been received for six of seven applicable change funds reviewed.

## **PAYROLL AND PERSONNEL [14]**

Employee separation procedures did not ensure complete documentation. A review of ten employee separations disclosed that a campus separation/clearance form was not properly completed in three instances.

## **FIXED ASSETS [14]**

Controls over property did not ensure that assets were properly recorded and reconciled to accounting records. Seven of twelve property acquisitions reviewed were not recorded at purchase price plus incidental costs incurred to put the item into place and ready for its intended use, and quarterly or monthly reconciliation of the property inventory with changes in the general ledger accounts were not performed. Further, property survey procedures did not ensure that precautions to prevent repeat property thefts were documented.

## **TRUST FUNDS [16]**

Trust fund expenditures were not always properly approved. A review of 20 trust fund expenditures disclosed that six expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

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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.
- ▶ 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 (SUAM) 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 April 2004. 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 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 April 22, 2004. 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**

#### **SATELLITE CASHIERING**

Cash control weaknesses were found at each of the four satellite cashiering areas visited.

The satellite cashiering locations reviewed included the office of admissions and records, the college of extended learning, the department of intercollegiate athletics, and residential life and university conference services.

#### **Safety of Funds**

There was no written record of individuals with the combination to the safe and the date the combination was last changed at the college of extended learning, and the safe combination at the department of intercollegiate athletics was not changed following the separation of an individual with knowledge of the present combination. In addition, at residential life and university conference services, cash and checks were maintained in an old cash register that did not lock during the business day, were accessible to multiple staff members, and were not adequately secured overnight.

State Administrative Manual (SAM) §8024 requires changing safe combinations when employees leave a department and retaining a record listing the names of individuals with knowledge of a department's safe combination and the date the combination was last changed.

State University Administrative Manual (SUAM) §3821 states that the chief business officer shall establish control procedures to ensure that all monies due are collected, safeguarded, deposited, reconciled, remitted, and invested in a timely manner.

The director of academic support and finance for the college of extended learning stated that the college had not fully considered documenting the names of employees with knowledge of the safe combination and the date the combination was last changed. The then-current associate athletics director stated that the employee that left was the person familiar with the procedure to change the combination following personnel separation. The associate director of business and hospitality for residential life and university conference services stated that inadequate security over cash was due to oversight.

#### **Restrictive Endorsement of Checks**

Checks received were not restrictively endorsed on the day of receipt at the admissions and records office.

SAM § 8034.1 requires checks and other negotiable instruments to be endorsed on the day they are received.

The assistant director of operations for admissions and records stated that they were unaware of the requirement to endorse negotiable instruments on the day they are received.

### **Transfer Accountability**

Cash receipts were transferred from admissions and records to main cashiering without the use of transfer receipts.

SAM §8021 states that a separate series of transfer receipts will be used to localize accountability for cash or negotiable instruments to a specific employee from the time of receipt to its deposit.

The assistant director of operations for admissions and records stated that she was unaware of this requirement to have a transfer receipt signed when deposits are dropped off.

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

### **Recommendation 1**

We recommend that the campus:

- a. Update records to show the date the safe combination was last changed and the individuals who have knowledge of the combination at the college of extended learning, change the safe combination at the department of intercollegiate athletics, and adequately safeguard cash receipts in residential life and university conference services.
- b. Establish procedures to ensure that all checks received in admissions and records are restrictively endorsed by the end of the day.
- c. Implement the use of transfer receipts between the office of admissions and records and main cashiering.

### **Campus Response**

We concur. Intercollegiate athletics has changed the safe combination, the college of extended learning has prepared an updated safe combination log, and residential life and conference services has installed a lockable cash drawer. Admissions and records has established procedures to ensure that all checks received are endorsed by the end of the day and has implemented use of transfer receipts.

Corrective action has been completed.

## **FEE RECONCILIATIONS**

Application and state university fee reconciliations were not always prepared in a timely manner.

We noted that:

- ▶ Application fee reconciliations had not been prepared during the past two fiscal years ended June 30, 2002 and 2003.
- ▶ The state university fee reconciliation for the fall 2001 academic term was not completed until June 12, 2002. Reconciliations for the fall 2002 and spring 2003 academic terms were not completed until July 23, 2003.

SUAM §3825.01 requires that a reconciliation of applications for admission to fees received be prepared 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.

The assistant director of financial services and tax stated that application and state university fee reconciliations were not completed due to employee turnover.

Untimely fee reconciliations increase the risk that errors and irregularities will not be detected.

### **Recommendation 2**

We recommend that the campus strengthen controls to ensure that application and state university fee reconciliations are timely performed for each academic term.

### **Campus Response**

We concur. The university controller and assistant vice president for financial and accounting services issued a memorandum to accounting staff that reiterates the requirements to perform application and state university fee reconciliations on a timely basis.

Corrective action has been completed.

## **ACCOUNTS RECEIVABLE**

### **BILLINGS FOR SERVICE**

Billings to auxiliary organizations for services rendered were not always timely invoiced and properly supported.

A review of 12 invoices issued from October 2002 through December 2003 disclosed that five invoices were prepared between 4 and 18 months after the services were provided. In addition, supporting documentation was not sufficient to determine whether two of the five invoices were complete and accurate.

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

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

The assistant director of financial accounting stated that the billings were not processed in a timely manner, because the responsible departments delayed forwarding information to accounts receivable.

Failure to timely invoice outstanding obligations due to the general fund from other sources reduces working capital and the likelihood of collecting funds, while inadequate support increases the risk of inaccurate billings and the inability to defend challenged invoices.

### **Recommendation 3**

We recommend that the campus strengthen procedures to ensure that billings for services rendered are timely received from service departments and are timely invoiced to users.

### **Campus Response**

We concur. The university controller and assistant vice president for financial and accounting services issued guidance memoranda that reiterate the need to forward billing information to accounts receivable on a timely basis.

Corrective action has been completed.

### **COLLECTION AND WRITE-OFF**

All available options to resolve delinquent accounts were not pursued.

#### **Collection**

Although some contacts were made via e-mail and telephone, we found that collection efforts for non-student receivables did not include the use of a series of collection letters with a progressively stronger tone. In addition, our review of 20 student receivable balances exceeding \$6,000 and three months old disclosed no evidence of collection efforts in five instances.

### **Write-Off**

The campus had not written off or sought discharge from accountability for the past two years. Our review of 16 non-student accounts receivable balances exceeding \$3,000 and three months old disclosed that the businesses were no longer operating or had filed bankruptcy in five instances. These receivables originated between October 1992 and December 2001.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables. Once the address of the debtor is known, the accounting office will send a sequence of three collection letters in a progressively stronger tone. If the collection letters are unsuccessful, an analysis should be prepared with additional collection efforts to include contracting with a collection agency. Further, if all reasonable collection procedures do not result in payment, departments should initiate one or more actions including, but not limited to, discharge from accountability of uncollectible amounts due from private entities.

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 university controller and associate vice president of financial and accounting services stated that systems conversions demanded resources and created delays. He further stated that there was a conscious decision made to delay write-off and discharge of student accounts receivables due to the desire to include all student receivables in the new student financial accounting system and added that there was a delay in conversion to the new system. He also stated that non-student accounts receivables were not written off or discharged due to a misunderstanding when the aforementioned decision for student accounts receivable write-off and discharge was made.

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

### **Recommendation 4**

We recommend that the campus strengthen controls over the collection and write-off of receivables.

### **Campus Response**

We concur. The university controller and assistant vice president for financial and accounting services will update written procedures regarding the collection and write-off of receivables.

Expected completion date: November 12, 2004

## PURCHASING

Campus procurement card controls did not ensure that approval of cardholder statements was adequately documented and transactions that exceeded purchase limits were authorized.

Our review of 15 procurement card statements between September and November 2003 disclosed that:

- ▶ Documentation was not available to evidence the individuals who reviewed and approved the cardholder statements and the dates of review and approval. As a result, we were unable to determine whether the cardholder statements had been properly reviewed.
- ▶ In four instances, single and/or monthly purchase limits were exceeded without proper documentation of authorization.

The California State University, Northridge (CSUN) *Procurement Card Program* policies and procedures indicated that:

- ▶ Cardholders must forward their electronic statement and backup receipts/invoices to their approving official within five working days of the bank downloading of transactions on the second or third day of each month.
- ▶ The approving official is responsible for forwarding all cardholder's backup documentation to accounts payable in a timely manner within three working days.
- ▶ The approving official is responsible for determining transaction limits and requesting and approving changes to transaction limits for each cardholder, although the purchasing department may authorize a temporary increase to permit completion of a transaction in process.

SAM §20050 indicates 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 manager of purchasing and contracts administration stated that she was unaware that documentation was unavailable to evidence the individuals who reviewed and approved cardholder statements and the dates of review and approval. She further stated that the lack of documented approval for purchase limit changes was due to oversight.

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

### **Recommendation 5**

We recommend that the campus:

- a. Establish procedures to ensure that adequate documentation is maintained to support the review and approval of procurement card purchases.
- b. Strengthen procedures to ensure that purchase limit changes are properly authorized and documented.

### **Campus Response**

We concur.

- a. The campus has designed a system-based monitoring report that will facilitate documenting the review and approval of procurement card purchases. Specifications for the report have been provided to JP Morgan Chase Commercial Card Solutions, who will prepare the report. Note that these reports will also be available to other CSU campuses that utilize JP Morgan Chase for their procurement card programs.

Expected completion date: November 22, 2004

- b. The campus has updated its procurement card coordinator's written procedures to include the requirement to maintain a hard copy of the authorization for purchase limit changes.

Corrective action has been completed.

## **REVOLVING FUND**

### **SALARY ADVANCES**

Salary advances were neither properly supported nor collected in a timely manner.

A review of ten salary advances issued from May 2002 through October 2003 disclosed that supporting documentation and evidence of collection efforts were not available for any of the advances reviewed.

SUAM §3813 requires prompt clearance of revolving fund payroll transactions. Generally, the time period for recovery of salary advances should not exceed 60 days.

SAM §8595 and §8776.7 require the clearance of revolving fund payroll transactions through offset against subsequent payroll warrants or use of relief from accountability.

The manager of payroll administration stated that this area had not been currently reviewed, due to staffing shortages and system conversions.

Inadequate control over salary advances reduces the likelihood of collection and negatively impacts cash flow.

**Recommendation 6**

We recommend that the campus strengthen controls over salary advances to ensure adequate documentation and timely resolution.

**Campus Response**

We concur. As of January 2004, the university stopped offering salary advances. To address the outstanding salary advances, Human Resource Information Systems (HRIS)/payroll staff have been directed, through the issuance of a department memorandum, to follow existing written procedures regarding the collection process.

**CHANGE AND PURCHASE FUNDS**

Approval for change funds was not always received from the Department of Finance.

A review of seven change funds over \$500 disclosed that Department of Finance approval was not received for six of the change funds.

SAM §8111.1 states that each change fund in excess of \$500 will be established only after approval of the fiscal systems and consulting unit in the Department of Finance.

The accounts payable manager stated that the campus did not obtain Department of Finance approval for change funds over \$500 due to oversight.

Inadequate administration of change and purchase funds increases the risk of loss and inappropriate use of state resources.

**Recommendation 7**

We recommend that the campus submit a request to the Department of Finance for approval of all change funds in excess of \$500 and any subsequent increases.

**Campus Response**

We concur. The campus will submit to the Department of Finance a request for approval for all change funds in excess of \$500.

Expected completion date: November 12, 2004

## **PAYROLL AND PERSONNEL**

Employee separation procedures did not ensure proper completion of clearance forms.

Our review of ten employee separations between January and December 2003 disclosed that, in three instances, a campus separation/clearance form was not properly completed.

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 administration stated that clearance forms were not properly completed, due to recent employee turnover in the payroll department.

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

### **Recommendation 8**

We recommend that the campus review and strengthen employee separation procedures to ensure proper completion of clearance forms.

### **Campus Response**

We concur. HRIS/payroll staff have been directed, through the issuance of a department memorandum, to verify completeness of separation/clearance forms.

Corrective action has been completed.

## **FIXED ASSETS**

### **PROPERTY ACCOUNTING**

Assets were not properly recorded and reconciled to accounting records.

Our review disclosed that:

- ▶ 7 of 12 property acquisitions reviewed were not recorded at purchase price plus incidental costs incurred to put the item into place and ready for its intended use. Instead, accounting records were adjusted based on purchase order information that may or may not be subsequently adjusted to reflect actual purchase costs.
- ▶ The campus did not perform a quarterly or monthly reconciliation of the property inventory with changes in the general ledger accounts.

SAM §8631 requires purchased assets to be recorded at cost. Cost is defined as the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

SAM §7924 requires agencies, at least quarterly or monthly, depending upon the volume of property transactions, to reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

The university controller and associate vice president for financial and accounting services stated that he was unaware that property was not always being valued at purchase price plus incidental costs incurred. He further stated that the lack of proper property reconciliations was due to oversight.

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

### **Recommendation 9**

We recommend that the campus:

- a. Establish procedures to ensure that property is accurately valued.
- b. Reconcile property acquisitions and dispositions with amounts recorded into the property ledger and changes in the general ledger accounts on at least a quarterly basis.

### **Campus Response**

We concur.

- a. To ensure that all capital assets are properly valued to include all costs, asset management has added additional steps to its existing procedures:
  - A revised PeopleSoft-generated Asset Management Expenditure Report has been implemented to facilitate identifying any costs, particularly incidental costs, not identified as being associated with a specific asset.
  - Invoices associated with these costs are obtained and reviewed to determine which asset records should be adjusted to reflect actual purchase costs.

Corrective action has been completed.

- b. The university controller and assistant vice president for financial and accounting services will issue a memorandum to accounting staff to advise them of the requirement to reconcile property acquisitions and dispositions with the amounts recorded into the property ledger and changes in the general ledger accounts on at least a quarterly basis.

Expected completion date: November 12, 2004

## **PROPERTY SURVEY REPORTS**

Property survey procedures did not ensure that precautions to prevent repeat property thefts were documented.

SAM §8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a property survey report form, STD. 152. The report will contain: 1) a description of the events; 2) precautions to be taken to prevent repeat situations; and 3) a statement that the California Highway Patrol or local law enforcement agency has been notified.

The materials manager stated that he was unaware of the requirement to document what precautions will be taken to prevent repeat property thefts.

Insufficient property survey procedures reduce accountability over state property.

### **Recommendation 10**

We recommend that the campus strengthen property survey procedures to ensure that precautions to prevent repeat property thefts are documented.

### **Campus Response**

We concur. Asset management has initiated the use of a supplemental form that is now required to be completed and filed with the asset survey form if the asset has been identified as stolen. This form requires the department to detail the precautions and methods of prevention taken to reduce the risk the recurrence.

Corrective action has been completed.

## **TRUST FUNDS**

Trust fund expenditures were not always properly approved.

Our review of 20 trust fund expenditures disclosed that six expenditures had not been approved by an individual who was an authorized signatory per the corresponding 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, their specimen signatures, the purpose of the trust, and restrictions on the use of monies.

The accounts payable manager stated that trust fund expenditures were not always properly approved due to oversight.

Failure to obtain proper authorization increases the risk of inappropriate expenditures and loss.

**Recommendation 11**

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

**Campus Response**

We concur. Certain expenditures cited in the audit were made with procurement cards; however, the procurement card approver was not an authorized signatory on the trust agreement. In order to ensure that procurement card purchases are approved by an authorized signatory, the trust account application has been revised to require that an authorized signatory have procurement card approval authority.

In order to adequately document the approval of trust fund expenditures associated with the purchase of library materials, the university library has strengthened its procedures by requiring that copies of purchase orders signed by an authorized signatory be retained.

Corrective action has been completed.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Jolene Koester	President
Clarence Askew	Materials Manager
Suzy Babikan	Assistant Director of Operations, Admissions and Records
Robert Barker	University Controller and Associate Vice President for Financial and Accounting Services
Karen Berkeland	Accounting/Receiving Supervisor, Library
Ron Clouse	Director of Budget and Planning
John Darakjy	Assistant Director of Financial Services and Tax
Margo Dutton	Assistant Director of Financial Accounting
Tasia Erickson	Registration Coordinator, College of Extended Learning
Phillip Gin	Associate Director of Business and Hospitality, Residential Life and University Conference Services
Rhonda Hyatt	Associate Athletics Director (at time of review)
Artak Khachatryan	Generally Accepted Accounting Principles Accountant
Tamara Kotlyar	Financial Technician
Joy Long	Student Accounting Manager
Jerry Luedders	Executive Assistant to the Provost
Howard Lutwak	Director of Internal Audit
Merideth Lyon	Order/receiving Specialist, Library
Angela McHugh	University Accounts Receivable Supervisor
Willie Miranda	Financial Accounting Manager
Lynette Mize	Manager of University Cash Services
Stephen Montgomery	Associate Vice President of Human Resources
Marian Nobleza	Fund Accountant
Mohammad Qayoumi	Vice President and Chief Financial Officer, Administration and Finance
Zia Qureshi	Cash Operations Supervisor
Barbara Raymond	Trust Accountant
Judy Reyes	Accounts Payable Manager
Janine Ridgeway	Order/Approval Supervisor, Library
Mary Rueda	Manager of Purchasing and Contracts Administration
Kimberly Sheldone	Financial Services and Trust Accounting Manager
Ellen Steinberg	Administrative Support Coordinator, Purchasing and Contracts Administration
Scott VanScoy	Special Services Lieutenant, Public Safety
Renee Venezia	Manager of Payroll Administration
Michael Weaver	Director of Academic Support and Finance, College of Extended Learning
Bruce Weinstein	Assistant Director of Physical Plant Management and Logistical Services
Chris Xanthos	Director of Systems and Technology

## **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  
**Northridge**

Jolene Koester  
President

November 5, 2004



Mr. Larry Mandel, University Auditor  
Office of the University Auditor  
The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802

Subject: Campus Response to Recommendations of Audit Report 04-04  
FISMA at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your letter of October 12, 2004. Also included is a copy of the responses in a Word document on the enclosed diskette.

We have read the report including the observations and recommendations, and agree with them. Corrective action to implement all of the recommendations has been taken. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Auditor at (818) 677-7647.

We appreciate the recommendations to improve CSUN's systems of internal control.

Sincerely,

  
Jolene Koester  
President

MQ:mh

Enclosures

cc: Dr. Mohammad Qayoumi, VP for Administration and Finance and CFO  
Dr. Robert Barker, Controller  
Howard Lutwak, Director, Internal Audit

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
NORTHRIDGE**

**Report Number 04-04  
September 27, 2004**

**CASH RECEIPTS**

**SATELLITE CASHIERING**

**Recommendation 1**

We recommend that the campus:

- a. Update records to show the date the safe combination last changed and the individuals who have knowledge of the combination at the college of extended learning, change the safe combination at the department of intercollegiate athletics, and adequately safeguard cash receipts in residential life and university conference services.
- b. Establish procedures to ensure that all checks received in admissions and records are restrictively endorsed by the end of the day.
- c. Implement the use of transfer receipts between the office of admissions and records and main cashiering.

**Campus Response**

We concur. Intercollegiate Athletics has changed the safe combination, the College of Extended Learning has prepared an updated safe combination log, and Residential Life and Conference Services has installed a lockable cash drawer. Admissions and Records has established procedures to ensure all checks received are endorsed by the end of the day and has implemented use of transfer receipts.

*Corrective action has been completed.*

**FEE RECONCILIATIONS**

**Recommendation 2**

We recommend that the campus strengthen controls to ensure that application and state university fee reconciliations are timely performed for each academic term.

**Campus Response**

We concur. The University Controller and Assistant Vice President for Financial and Accounting Services issued a memorandum to accounting staff that reiterates the requirements to perform application and state university fee reconciliations on a timely basis.

*Corrective action has been completed.*

**ACCOUNTS RECEIVABLE**

**BILLINGS FOR SERVICE**

**Recommendation 3**

We recommend that the campus strengthen procedures to ensure that billings for services rendered are timely received from service departments and are timely invoiced to users.

**Campus Response**

We concur. The University Controller and Assistant Vice President for Financial and Accounting Services issued guidance memoranda that reiterate the need to forward billing information to Accounts Receivable on a timely basis.

*Corrective action has been completed.*

**COLLECTION AND WRITE-OFF**

**Recommendation 4**

We recommend that the campus strengthen controls over the collection and write-off of receivables.

**Campus Response**

We concur. The University Controller and Assistant Vice President for Financial and Accounting Services will update written procedures regarding the collection and write-off of receivables.

*Expected completion date: November 12, 2004*

**PURCHASING**

**Recommendation 5**

We recommend that the campus:

- a. Establish procedures to ensure that adequate documentation is maintained to support the review and approval of procurement card purchases.

- b. Strengthen procedures to ensure that purchase limit changes are properly authorized and documented.

**Campus Response**

We concur.

- a. The campus has designed a system-based monitoring report that will facilitate documenting the review and approval of procurement card purchases. Specifications for the report have been provided to JP Morgan Chase Commercial Card Solutions who will prepare the report. Note that these reports will also be available to other CSU campuses that utilize JP Morgan Chase for their procurement card programs.

*Expected completion date: November 22, 2004*

- b. The campus has updated its procurement card coordinator's written procedures to include the requirement to maintain a hardcopy of the authorization for purchase limit changes.

*Corrective action has been completed.*

**REVOLVING FUND**

**SALARY ADVANCES**

**Recommendation 6**

We recommend that the campus strengthen controls over salary advances to ensure adequate documentation and timely resolution.

**Campus Response**

We concur. As of January 2004, the University stopped offering salary advances. To address the outstanding salary advances, HRIS/Payroll staff have been directed, through the issuance of a department memorandum, to follow existing written procedures regarding the collection process.

**CHANGE AND PURCHASE FUNDS**

**Recommendation 7**

We recommend that the campus submit a request to the Department of Finance for approval of all change funds in excess of \$500 and any subsequent increases.

**Campus Response**

We concur. The campus will submit to the Department of Finance a request for approval for all change funds in excess of \$500.

*Expected completion date: November 12, 2004*

## PAYROLL AND PERSONNEL

### Recommendation 8

We recommend that the campus review and strengthen employee separation procedures to ensure proper completion of clearance forms.

### Campus Response

We concur. HRIS/Payroll staff have been directed, through the issuance of a department memorandum, to verify completeness of separation/clearance forms.

*Corrective action has been completed.*

## FIXED ASSETS

### PROPERTY ACCOUNTING

### Recommendation 9

We recommend that the campus:

- a. Establish procedures to ensure that property is accurately valued.
- b. Reconcile property acquisitions and dispositions with amounts recorded into the property ledger and changes in the general ledger accounts on at least a quarterly basis.

### Campus Response

We concur.

- a. To ensure that all capital assets are properly valued to include all costs, Asset Management has added additional steps to its existing procedures:
  - A revised PeopleSoft-generated Asset Management Expenditure Report has been implemented to facilitate identifying any costs, particularly incidental costs, not identified as being associated with a specific asset.
  - Invoices associated with these costs are obtained and reviewed to determine which asset records should be adjusted to reflect actual purchase costs.

*Corrective action has been completed.*

- b. The University Controller and Assistant Vice President for Financial and Accounting Services will issue a memorandum to accounting staff to advise them of the requirement to reconcile property acquisitions and dispositions with the amounts recorded into the property ledger and changes in the general ledger accounts on at least a quarterly basis.

*Expected completion date: November 12, 2004*

## PROPERTY SURVEY REPORTS

### Recommendation 10

We recommend that the campus strengthen property survey procedures to ensure that precautions to prevent repeat property thefts are documented.

### Campus Response

We concur. Asset Management has initiated the use of a supplemental form that is now required to be completed and filed with the asset survey form if the asset has been identified as stolen. This form requires the department to detail the precautions and methods of prevention taken to reduce the risk the recurrence.

*Corrective action has been completed.*

## TRUST FUNDS

### Recommendation 11

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

### Campus Response

We concur. Certain expenditures cited in the audit were made with procurement cards; however, the procurement card approver was not an authorized signatory on the trust agreement. In order to ensure that procurement card purchases are approved by an authorized signatory, the trust account application has been revised to require that an authorized signatory have procurement card approval authority.

In order to adequately document the approval of trust fund expenditures associated with the purchase of library materials, the University Library has strengthened its procedures by requiring that copies of purchase orders signed by an authorized signatory be retained.

*Corrective action has been completed.*

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 10, 2004

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

**MEMORANDUM**

FRESNO

FULLERTON

TO: Mr. Larry Mandel  
University Auditor

HAYWARD

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 04-04 on *FISMA*,  
California State University, Northridge

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of November 10, 2004, I accept the response as submitted with the draft final report on *FISMA*, California State University, Northridge.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/al

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Jolene Koester, President  
Dr. Mohammad Qayoumi, Vice President and Chief Financial Officer,  
Administration and Finance

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS