

FISMA

**CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS**

**Report Number 05-07
September 1, 2005**

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ABBREVIATIONS

CEE	College of Extended Education
CMS	Common Management Systems
CSU	California State University
CSUDH	California State University, Dominguez Hills
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual

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 May 2, 2005, through June 17, 2005, and made a study and evaluation of the accounting and administrative control in effect as of June 17, 2005. This report represents our biennial review.

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

In our opinion, CSUDH's accounting and administrative control in effect as of June 17, 2005, 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 [5]

Checks were not always deposited within ten working days of receipt at the College of Extended Education (CEE). Five checks totaling \$1,925 had been held in the CEE office safe for 19 working days after receipt pending completion of the registration process.

ACCOUNTS RECEIVABLE [5]

Unidentified differences noted during the reconciliations of two accounts were not timely resolved. Unidentified differences were noted during a review of the monthly reconciliations of the accounts receivable and uncleared collections accounts for the period January 2005 through March 2005. Although the reconciliations had been completed in a timely manner, a CEE accounts receivable account and an uncleared collections account were out of balance by \$135,332 and \$108,377, respectively, on March 31, 2005. The unidentified differences had varied over several months, and correcting adjustments were not recorded until June 2005 for fiscal year ended 2004/05. In addition, delinquent payroll accounts receivable were not adequately pursued to ensure timely collection. Documented collection activity was not performed for 8 of 20 employees reviewed with payroll receivables dated between October 2003 and August 2004.

PURCHASING [7]

Campus procurement card procedures did not ensure that the procurement card administrator was provided supporting documentation for all purchases to support audit review purposes. The procurement card administrator was not always provided with itemized receipts, and the *CSUDH Credit Card Program Policy Manual* did not specifically require itemized receipts as supporting evidence of purchases.

FIXED ASSETS [8]

Property acquisitions were not always recorded timely into the accounting records. A review of ten property acquisitions disclosed that in three instances, property was recorded into the accounting records between 98 and 267 days after receipt. This is a repeat finding from the prior FISMA audit.

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 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 2003/04 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 2004 to March 2005. 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 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 June 17, 2005. 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

Checks were not always deposited within ten working days of receipt at the College of Extended Education (CEE).

We found five checks totaling \$1,925 had been held in the CEE office safe 19 working days after receipt pending completion of the registration process.

State Administrative Manual (SAM) §8032.1 requires agencies to deposit receipts in a timely and economical manner. Accumulated receipts of any amount will not remain undeposited for more than ten working days.

The dean of the college of extended and international education stated that the checks were being held until the faculty member accepted the student into the program and signed the mentor contract agreement. She further stated that checks were now being deposited into an appropriate revenue account when received.

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

Recommendation 1

We recommend that the campus deposit checks in a timely manner and utilize a suspense account to maintain accountability for checks received but not applied as payments.

Campus Response

We concur. The CCE is now promptly depositing all checks received. All checks received for payment of registration are deposited directly into a revenue account. Completed.

ACCOUNTS RECEIVABLE

SUBSIDIARY RECONCILIATIONS

Unidentified differences noted during the reconciliations of two accounts were not timely resolved.

During our review of the monthly reconciliations of the accounts receivable and uncleared collections subsidiary ledgers to the general ledger for the period January 2005 through March 2005, we noted unidentified differences that were not timely resolved. Although the reconciliations had been completed in a timely manner, a CEE accounts receivable account and an uncleared collections account were out of balance by \$135,332 and \$108,377, respectively, on March 31, 2005. The

unidentified differences had varied over several months, and correcting adjustments were not recorded until June 2005 for fiscal year ended 2004/05.

SAM §7901 requires that corrections to errors be made before financial reports are prepared to partially ensure the accuracy of an agency's financial reports. Properly prepared reconciliations also help to audit the agency's accounting records.

The acting director of accounting services stated that the unidentified differences were actually internal account differences that required time-consuming research to rectify.

Untimely resolution of unidentified reconciling differences limits the campus' ability to detect errors and irregularities.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that all unidentified differences are resolved when reconciliations are prepared.

Campus Response

We concur. The campus will strengthen its procedures for addressing unidentified reconciling differences by resolving these differences prior to the closing of the month end following the reconciliations. Documentation of several months of reconciliations that demonstrate the resolution of unresolved reconciliations will be provided by December 2005.

PAYROLL RECEIVABLES

Delinquent payroll accounts receivable were not adequately pursued to ensure timely collection.

Documented collection activity was not performed for 8 of 20 employees reviewed with payroll receivables dated between October 2003 and August 2004.

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

The recently appointed manager of payroll services stated due to a number of vacant positions in payroll only the highest priority tasks could be completed, which resulted in untimely collection activity.

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

Recommendation 3

We recommend that the campus ensure that payroll accounts receivable are promptly pursued for collection.

Campus Response

We concur. All delinquent payroll accounts receivable identified in the audit report either have been cleared or are being pursued. The payroll manager will review accounts receivable procedures with the payroll staff monthly and will request from each a monthly receivables status report. The reports will be reviewed by the payroll manager and supervisor to ensure appropriate action as well as SAM and campus procedures are being followed. Research and the appropriate form of collection for a few outstanding receivables are expected to be completed by December 2005.

PURCHASING

Campus procurement card procedures did not ensure that the procurement card administrator was provided supporting documentation for all purchases.

Our review of procurement card statements for ten employees dated between February 2005 and March 2005 disclosed that:

- ▶ Itemized receipts had not been submitted to the procurement card administrator to support 61 transactions totaling \$12,292. Although the cardholders' approving official had been provided with the itemized receipts, the procurement card administrator was only provided with credit card receipts and a general listing of what was purchased.
- ▶ The California State University, Dominguez Hills (CSUDH) *Credit Card Program Policy Manual* did not specifically require itemized receipts as supporting evidence of purchases.

The CSUDH *Credit Card Program Policy Manual*, dated February 2005, requires that the procurement cardholder have several of the following items when reconciling their statement: vendors 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 paid, and justification for purchase.

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 the procurement card administrator was not provided the itemized receipts as suggested in the credit card manual because the approving department authority retained them. He added that the credit card manual had been revised to require that itemized receipts be provided to the procurement card administrator.

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

Recommendation 4

We recommend that the campus require that itemized receipts be submitted to the procurement card administrator to support all procurement card purchases.

Campus Response

We concur. The *Credit Card Program Policy Manual* was modified to require all cardholders and departments to submit itemized receipts to the procurement card administrator to support all procurement card purchases. All departments, including physical plant, are now submitting itemized receipts. Completed.

FIXED ASSETS

Property acquisitions were not always recorded timely into the accounting records.

Our review of ten property acquisitions between November 2003 and March 2005 disclosed that in three instances, property was recorded into the accounting records between 98 and 267 days after receipt. This is a repeat finding from the prior Financial Integrity and State Manager’s Accountability Act (FISMA) audit.

SAM §8650 requires departments to record specific property information when property is acquired. In addition, departments will keep track of state property, whether capitalized or not, in an automated property accounting system.

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 the three items were not recorded timely because of a misunderstanding as to who was going to contact the receiving department after the property was delivered directly to the department and installed by the manufacturer.

Untimely recording of fixed asset acquisitions increases the risk of misstated property records and theft or loss of state property.

Recommendation 5

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded timely.

Campus Response

We concur. The campus will strengthen its procedures to address the timely recording of fixed assets. This includes the development of more effective systems to determine when equipment has been delivered to campus in order that it can be recorded timely. These strengthened procedures will include such steps as 1) establishing an electronic follow-up monitoring system to identify what equipment has not yet been delivered through and recorded by the receiving department, and 2) contacting departments to determine if equipment has been delivered directly to a specific area. These strengthened procedures will be completed by December 2005.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
James E. Lyons, Sr.	President
Gayle Ball	University Registrar
Christina Baltazar	Accounting Technician, College of Extended and International Education
Terry Castro-Oistad	Manager, Payroll Services
Lisa Chavez	Acting Director, Accounting Services
Brian Dahm	CMS Financial Implementation Coordinator
Joseph Dehlinger	Supervisor, Receiving and Shipping
Carolyn Esguerra-Castillo	Student Refund Coordinator, Accounts Receivable
Timothy Farris	Director, Administrative Information Systems
Tomoko Fukada	Payroll Services Technician
Margaret Gordon	Dean, College of Extended and International Education
Dovie Harness	Cashiering Coordinator – Supervisor, Cashier’s Office
Marcela Hernandez	Application Coordinator, Admissions and Records
Abigail Herrera	Supervisor, Accounts Payable
Kathleen Hughes	Director, Business Process Management
Myeshia Leverett	Records and Registration Specialist, Admissions and Records
Margaret Love-Nicholson	Asset Management Coordinator
Penny Mackaig	University Receivables Coordinator, Accounts Receivable
Ayesha Marcel	Administrative Operations Coordinator, University Housing Services
David McCulloch	Assistant Director, Business Process Management
Timothy Mozia	Director of Operations, College of Extended Education Registration
Marcella Panuco	Cashier, Cashier’s Office
George Pardon	Vice President, Administration and Finance
Jenny Pham	General Accountant, General Accounting
Francisco Quinonez	Contract Specialist
Lorena Raymundo	Lead Financial Accountant, General Accounting
Kaveh Razaghi	Director, University Housing Services
Mary Ann Rodriguez	Associate Vice President, Administration and Finance
Clifford Ruddick	Accounting Technician, Travel Coordinator, Accounts Payable
Mark Seigle	Director, Human Resources Management
Ruth Stipp	Manager, Student Financial Services
Lynn Weddington	Associate Director, University Housing Services
Emmit Williams	Director, Procurement, Contracts, Logistical and Support Services
James Woods	Director, Admissions and Records
Min Yao	Associate Vice President, Information Technology

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the 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 of Administration and Finance
Carson, CA 90747 (310) 243-3750 FAX: (310) 243-3869

October 14, 2005

RECEIVED
UNIVERSITY AUDITOR

OCT 14 2005

THE CALIFORNIA STATE
UNIVERSITY

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

Dear Mr. Mandel:

Enclosed please find California State University, Dominguez Hills' response to the FISMA Audit 05-07. The campus is committed to addressing and resolving the issues identified in the audit report.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "George A. Pardon".

George A. Pardon
Vice President of Administration and Finance

- c: James E. Lyons, Sr., President
Allen Mori, Provost and Vice President, Academic Affairs
Lisa Chavez, Acting Director, Accounting Services
Margaret Gordon, Dean, College of Extended and International Education
Kathleen Hughes, Director, Business Process Management
Mary Ann Rodriguez, Associate Vice President, Administration and Finance
Emmit Williams, Director, Procurement, Contracts and Logistical Support Services

FISMA

**CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS**

**REPORT NUMBER 05-07
OCTOBER 14, 2005**

CASH RECEIPTS

Recommendation 1

We recommend that the campus deposit checks in a timely manner and utilize a suspense account to maintain accountability for checks received but not applied as payments.

Campus Response

We concur. The College of Extended Education is now promptly depositing all checks received. All checks received for payment of registration are deposited directly into a revenue account. *Completed.*

ACCOUNTS RECEIVABLE

SUBSIDIARY RECONCILIATIONS

Recommendation 2

We recommend that the campus strengthen procedures to ensure that all unidentified differences are resolved when reconciliations are prepared.

Campus Response

We concur. The campus will strengthen its procedures for addressing unidentified reconciling differences by resolving these differences prior to the closing of the month end following the reconciliations. Documentation of several months of reconciliations that demonstrate the resolution of unresolved reconciliations will be provided *by December 2005.*

PAYROLL RECEIVABLES

Recommendation 3

We recommend that the campus ensure that payroll accounts receivable are promptly pursued for collection.

Campus Response

We concur. All delinquent payroll accounts receivable identified in the audit report have either been cleared or are being pursued. The payroll manager will review accounts receivable procedures with the payroll staff monthly and will request from each a monthly receivables status report. The reports will be reviewed by the payroll manager and supervisor to ensure appropriate action as well as SAM and campus procedures are being followed. Research and the appropriate form of collection for a few outstanding receivables are expected to be *completed by December 2005*.

PURCHASING**Recommendation 4**

We recommend that the campus require that itemized receipts be submitted to the procurement card administrator to support all procurement card purchases.

Campus Response

We concur. The *Credit Card Program Policy Manual* was modified to require all cardholders and departments to submit itemized receipts to the procurement card administrator to support all procurement card purchases. All departments, including physical plant, are now submitting itemized receipts. *Completed*.

FIXED ASSETS**Recommendation 5**

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded timely.

Campus Response

We concur. The campus will strengthen its procedures to address the timely recording of fixed assets. This includes the development of more effect systems to determine when equipment has been delivered to campus in order that it can be recorded timely. These strengthened procedures will include such steps as 1) establishing an electronic follow-up monitoring system to identify what equipment has not yet been delivered through and recorded by the Receiving Department, 2) contacting departments to determine if equipment has been delivered directly to a specific area. These strengthened procedures will be *completed by December 2005*.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

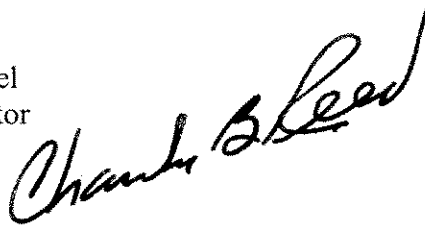
- BAKERSFIELD
- CHANNEL ISLANDS
- CHICO
- DOMINGUEZ HILLS
- EAST BAY
- FRESNO
- FULLERTON
- HUMBOLDT
- LONG BEACH
- LOS ANGELES
- MARITIME ACADEMY
- MONTEREY BAY
- NORTHRIDGE
- POMONA
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- SAN BERNARDINO
- SAN DIEGO
- SAN FRANCISCO
- SAN JOSE
- SAN LUIS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

October 17, 2005

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor



SUBJECT: Draft Final Report Number 05-07 on *FISMA*,
California State University, Dominguez Hills

In response to your memorandum of October 17, 2005, I accept the response as submitted with the draft final report on *FISMA*, California State University, Dominguez Hills.

CBR/jt

Enclosure

cc: Dr. James E. Lyons, Sr., President