

FISMA

**CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE**

**Report Number 06-01
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CONTENTS

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

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts.....	6
Main and Satellite Cashiering	6
Fee Reconciliations	9
Accounts Receivable.....	11
Billings for Service.....	11
Payroll Accounts Receivable.....	11
Revolving Fund.....	14
Revolving Fund Resources.....	14
Change and Purchase Funds.....	15
Cash Disbursements.....	16
Fixed Assets	17

APPENDICES

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

ABBREVIATIONS

COD	Center on Disabilities
CMS	Common Management Systems
CSU	California State University
CSUN	California State University, Northridge
FISMA	Financial Integrity and State Manager's Accountability Act
HRIS	Human Resources Information Systems
IA	Intercollegiate Athletics
PTS	Parking and Transportation Services
SAM	State Administrative Manual
SUAM	State University Administrative Manual
UCS	University Cash Services

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, 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, Education Code, Title 5, and Trustee policy.

We visited the CSUN campus from February 6, 2006, through March 17, 2006, and made a study and evaluation of the accounting and administrative control in effect as of March 17, 2006. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, revolving fund, cash disbursements, 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 March 17, 2006, taken as a whole, was sufficient to meet the objectives stated above.

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

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

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

CASH RECEIPTS [6]

Cash control weaknesses were found at university cash services and at each of the three satellite cashiering areas visited, which included parking and transportation services, the Center on Disabilities, and intercollegiate athletics. The reconciliation of parking permits inventory to cash receipts and by decal number was not adequate. Further, instances of accountability for cash receipts was not always localized, checks were not timely endorsed, receipts were not adequately safeguarded or deposited in a timely manner, and the transfer of deposits was not adequately controlled or secured. Application and state university fee reconciliations were not always timely prepared and complete. This is a repeat finding from the prior FISMA audit.

ACCOUNTS RECEIVABLE [11]

Billings to auxiliary organizations for services rendered were not always timely invoiced. A review of 20 invoices disclosed that three invoices were prepared from 59 to 537 days after the services were provided. This is a repeat finding from the prior FISMA audit. Delinquent payroll accounts receivable were not adequately pursued to ensure timely collection. Collection letters were not timely and consistently sent to 17 of 22 current employees and to 7 of 10 terminated employees. In certain instances, this insufficient collection activity prevented submission of the balances for discharge from accountability or tax offset. This is a repeat finding from the prior FISMA audit. In addition, the payroll accounts receivable aging report as of December 31, 2005, was an inaccurate reflection of outstanding accounts receivable balances because certain payments had not been timely recorded.

REVOLVING FUND [14]

Revolving fund resources were not always adequate to meet disbursement requirements. The campus had overdrawn its revolving fund during 8 of the 18 months reviewed between July 2004 and December 2005 due to an unusually high volume of construction projects. The amounts by which the revolving fund was overdrawn ranged from \$107,245 to \$2,979,517. Change and purchase funds were not always counted with the required frequency or properly approved. A review of the 17 change and purchase funds maintained by the campus disclosed that six funds were not counted with the required frequency, and one change fund greater than \$500 was not properly approved by the Department of Finance.

CASH DISBURSEMENTS [16]

Bank reconciliations were not always timely prepared and complete. A review of bank reconciliations for September, October, and November 2005 disclosed that the reconciliations were completed from 93 to 124 days after month's end. Additionally, the reconciliations were not always appropriately signed and dated by the reviewer.

FIXED ASSETS [17]

Assets were not timely recorded and reconciled to accounting records. One of ten property acquisitions reviewed that was received in July 2005 and valued at \$64,000 had not been recorded to the general ledger. Further, the most recent property reconciliation was for June 2005.

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 2004/05 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 2005 to December 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 March 17, 2006. 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

MAIN AND SATELLITE CASHIERING

Cash control weaknesses were found at university cash services (UCS) and at each of the three satellite cashiering areas visited.

The satellite cashiering locations reviewed included parking and transportation services (PTS), the Center on Disabilities (COD), and intercollegiate athletics (IA).

Parking Receipts

The reconciliation of parking permits inventory to cash receipts and by decal number was not adequate.

Our review of the fall 2005 reconciliation of parking permits inventory disclosed that the current parking permit reconciliations completed by PTS and UCS were not adequate to ensure accountability of revenues received versus permits sold at different price breaks throughout the semester. Furthermore, the reconciliation of parking permits inventory by decal number was not sufficiently documented by PTS.

State Administrative Manual (SAM) §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications and requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

The assistant director of financial services and tax stated that the practice of reconciling the physical inventory of permits to the revenue account(s) was not employed because the constant change in prorated sale and return rates after the semester began reduced the accuracy and feasibility of reconciling after that point. The PTS captain stated that CashNet was not made available to PTS until June 2005 and PTS was in a managerial transitional phase starting July 2005. He further stated that the outgoing parking director, who left in December 2005, had not implemented any reconciliation procedures.

Accountability

Accountability for cash receipts was not always localized.

We found that:

- ▶ Payments (cash and checks) were transferred between employees without the use of transfer receipts when transferred from athletics field personnel to the IA office and from the IA office to the accounting technician housed in a separate administrative building on the other side of campus.
- ▶ The person responsible for opening incoming mail at UCS and the COD did not prepare a prelisting of cash and checks received not payable to the university.

SAM §8021 requires 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 its receipt to its deposit. This series of receipts need not be press-numbered. A receipt will be signed by the receiving employee whenever cash or checks not payable to the state agency are transferred between employees. State agencies will retain copies of these receipts.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency will be prelisted by the person opening the mail to localize accountability of these assets.

The IA business manager stated that the need for the use of transfer receipts was not recognized. The assistant director of financial services and tax stated that checks received via mail not payable to the university were returned to the sender, but not logged. The COD director stated that the receipt of cash or checks not payable to the university was not logged because the checks were not deposited; if the owner could not be identified, the checks were returned to the sender.

Safety and Deposit of Funds

Currency and checks were not always adequately safeguarded and timely deposited by IA.

We found that:

- ▶ Cash and checks collected by athletics field personnel were not adequately safeguarded in a locked safe or file cabinet, and the checks were not endorsed on the day received. The checks were not endorsed until after they were brought to the IA office and prepared for deposit.
- ▶ The inter-campus transfer of cash and checks from the IA office to the accounting technician at a separate administrative building was not adequately secured as the funds were only stored in a folder during transit.

- ▶ Currency, checks, and credit card receipts were not always deposited within ten working days of receipt at the IA office. We visited IA on February 15, 2006, and found currency and manually-imprinted credit card slips totaling \$350 and \$110, respectively, that had been received on November 22, 2005, and were being held in the safe pending further disposition. Additionally, we found currency and checks dated from December 6, 2004, to February 1, 2006, totaling \$160 and \$5,110, respectively, for various donations and sports camps that had not been deposited. We found these items in transit from the IA office to the accounting technician housed in a separate administration building on the other side of campus. It should be noted that the checks were initially received by athletics personnel and were transferred to the IA office on February 13, 2006.

SAM §8034.1 and §8023 require checks and other negotiable instruments to be endorsed on the day they are received.

SAM §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping. It further 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 IA business manager stated that the athletics field personnel did not have possession of a bank endorsement stamp or a secured depository; therefore, checks were not endorsed or secured until they were transferred to the IA business office. She further stated that the need for the use of a secured deposit bag was not recognized and added that the delayed deposit of funds was a result of inadequate procedures and controls for athletics field personnel concerning the receipt and deposit of funds.

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

Recommendation 1

We recommend that the campus:

- a. Prepare documented reconciliations of parking permits issued to revenue recorded in the general ledger, including verification of decals issued and decals returned.
- b. Implement the use of transfer receipts at IA to localize accountability over currency and checks received and transferred to other locations.
- c. Establish procedures to prepare a prelisting of currency and checks received not payable to the university at UCS and the COD.
- d. Ensure that all checks received by athletics field personnel are restrictively endorsed by the end of the day.

- e. Ensure that all currency and checks received by athletics field personnel are adequately safeguarded in a secured storage facility upon receipt from customers and prior to deposit and secured in a locked bag when transferred inter-campus.
- f. Ensure that all IA funds are deposited within ten working days of receipt.

Campus Response

We concur.

- a. Administration and finance has implemented periodic reconciliations of parking permits issued to revenue recorded in the general ledger.
- b. A cash transfer/receipt log has been implemented in IA.
- c. Written procedures have been established for the control and accountability of currency and checks received and not payable to the university.
- d. A memorandum was issued to all IA personnel that reiterates the requirement to bring all checks to the IA business office. In addition, the IA business office has obtained an additional endorsement stamp to facilitate endorsing the checks in a timely manner.
- e. A memorandum was issued to all IA personnel that reiterates the requirement to safeguard checks received by field personnel prior to bringing them to the IA business office. In addition, two locking deposit bags have been obtained to secure receipts when transferred.
- f. The university controller has issued a memorandum to IA reiterating the requirement to deposit funds within ten working days of receipts.

Corrective action has been completed for items a through f.

FEE RECONCILIATIONS

Application and state university fee reconciliations were not always timely prepared and complete. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Our review of the four semesters from spring 2004 to fall 2005 disclosed that:

- ▶ Application fee reconciliations were not completed for any of the semesters reviewed.
- ▶ State university fees were not reconciled for spring 2004, and reconciliations for fall 2004 and spring 2005 were not completed until October 4, 2005. Additionally, each of the reconciliations from fall 2004 to fall 2005 were not appropriately signed and dated.

State University Administrative Manual (SUAM) §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year term and maintained on file by each campus. The reconciliations should be completed one month after the end of the academic term being reconciled.

SUAM §3825.02 states that a reconciliation of state university fees to census date report relative to the number of students accounted on the census date shall be prepared for each academic term. The reconciliation shall be maintained on file by each campus. Although SUAM §3825.02 is silent as to the due date for reconciliation, SUAM §3825.01 states that application fee reconciliations should be completed one month after the end of the academic term being reconciled.

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

The assistant director of financial services and tax stated that the application fee reconciliations were not completed because admissions and records had not maintained specific data required for completion of the reconciliation. He added that due to the California State University Mentor online registration/application process, there was significant uncertainty in the distribution of application fees to multiple campuses. He further stated that the state university fee reconciliations were not timely prepared, signed, and dated due to PeopleSoft query issues after the PeopleSoft Student Financials module implementation in October 2003 and staff turnover in UCS.

Failure to reconcile fees in a timely and complete manner increases the risk that errors and irregularities will not be detected and compromises accountability.

Recommendation 2

We recommend that the campus strengthen controls to ensure that application and state university fee reconciliations are prepared in a timely and complete manner for each academic term.

Campus Response

We concur. Procedures for the reconciliation of application fees are being developed.

Expected completion date: September 1, 2006

ACCOUNTS RECEIVABLE

BILLINGS FOR SERVICE

Billings to auxiliary organizations for services rendered were not always timely invoiced. This is a repeat finding from the prior FISMA audit.

Our review of 20 invoices issued between October 2005 and December 2005 disclosed that three invoices were prepared from 59 to 537 days after the services were provided due to the late receipt of billing information from the service provider.

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 university accounts receivable supervisor 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.

Recommendation 3

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

Campus Response

We concur. The university controller has reminded campus financial managers of the importance of submitting billing information timely by an e-mailed memo and will reinforce that reminder in person at the August 2006 meeting of the Academic Resources Council.

Expected completion date: August 22, 2006

PAYROLL ACCOUNTS RECEIVABLE

Delinquent payroll accounts receivable were not adequately pursued to ensure timely collection, and the payroll accounts receivable aging report was not accurate. The portion dealing with timely collection is a repeat finding from the prior FISMA audit.

Collection and Write-Off

Our review of payroll accounts receivable for 22 current employees dated between December 2000 and December 2005 and 10 terminated employees dated between August 1995 and April 2004 disclosed that:

- ▶ Collection letters were not timely and consistently sent to 17 out of 22 current employees. In addition, the insufficient collection activity for seven of these receivables prevented submission of the balances for discharge from accountability or tax offset. Outstanding receivables for these 17 employees totaled \$71,818 as of December 31, 2005.
- ▶ Collection letters were not timely and consistently sent to 7 out of 10 terminated employees. In addition, the insufficient collection activity on these receivables prevented submission of the balances for discharge from accountability or tax offset. Outstanding receivables for these seven prior employees totaled \$19,027 as of December 31, 2005.

Government Code §19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from office revolving fund salary and travel advances and payroll warrants issued by the State Controller's Office.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables. Further, once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If 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, tax offset and discharge from accountability of uncollectible amounts due from private entities.

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

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

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

The manager of payroll administration/human resources information systems (HRIS) stated that the inadequate collection activity was the result of staffing shortages.

Payroll Accounts Receivable Aging

The payroll accounts receivable aging report as of December 31, 2005, was an inaccurate reflection of outstanding accounts receivable balances.

Our review of ten delinquent payroll accounts receivable that were partially paid by the employee from January 2002 to December 2005, either by agency collection or payroll deduction, disclosed that seven of the account balances had not been appropriately adjusted in the PeopleSoft general ledger and therefore were not accurately reflected in the payroll accounts receivable aging report as of December 31, 2005.

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 manager of payroll administration/HRIS stated that when the payroll department first received payment information it was logged on a local database that was not connected to the PeopleSoft accounts receivable system. She further stated that these payments were not posted in the PeopleSoft system until they were deposited and/or recorded to the general ledger, which resulted in a difference in the accounts receivable balances shown in the payroll database versus PeopleSoft system.

Inadequate control over delinquent payroll accounts receivable and the recording of account payments reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk of inappropriate collection activity and misstatement of financial statements.

Recommendation 4

We recommend that the campus:

- a. Strengthen procedures to ensure that payroll accounts receivable are promptly pursued through the use of collection letters and tax offset.
- b. Analyze payroll accounts receivable to determine which receivables are uncollectible and write-off or request discharge from accountability, as warranted.
- c. Strengthen procedures to ensure that payments received against payroll accounts receivable are recorded to the general ledger in a timely manner.

Campus Response

We concur.

- a. Written procedures have been revised that provide specific guidelines for promptly pursuing payroll accounts receivables through the use of collection letters, payroll deduction, and tax offset.
- b. A payroll staff member will analyze payroll accounts receivable to determine which receivables appear to be uncollectible and will initiate a write-off or discharge from accountability.
- c. Procedures to ensure that payroll accounts receivable payments are recorded to the general ledger in a timely manner will be implemented. Payroll personnel will perform a monthly reconciliation of payroll accounts receivable recorded on the general ledger to the payroll office database.

Expected completion date: September 1, 2006

REVOLVING FUND

REVOLVING FUND RESOURCES

Revolving fund resources were not always adequate to meet disbursement requirements.

We noted that the campus had overdrawn its revolving fund during 8 of the 18 months reviewed between July 2004 and December 2005 due to an unusually high volume of construction projects. The amounts by which the revolving fund was overdrawn ranged from \$107,245 to \$2,979,517. The revolving fund allocation of \$6,000,000 was approximately 2% of the \$259,368,535 campus General Fund appropriation and appeared insufficient to cover the recurring deficits caused by the construction projects.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include, in part, 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 campus had been undergoing several major construction projects, which required large payments that the revolving fund was insufficient to cover.

Failure to maintain adequate revolving funds to reimburse campus expenses may result in budget irregularities.

Recommendation 5

We recommend that the campus conduct an analysis of revolving fund activity and increase its size, if warranted.

Campus Response

We concur. The university controller had planned to request an increase in California State University, Northridge's revolving fund allowance. However, recent legislative action approving the Fee Revenue Management Plan (student fees in trust) will reduce the use of the revolving fund to payments for construction services. The existing revolving fund allowance should be sufficient for that purpose.

Corrective action has been completed.

CHANGE AND PURCHASE FUNDS

Change and purchase funds were not always counted with the required frequency or properly approved.

Our review of the 17 change and purchase funds maintained by the campus disclosed that:

- ▶ Six funds were not counted with the required frequency from March 2004 to December 2005.

Fund Name	Amount	Frequency	Counts Missed
Sundial	\$100	Annually	8/05
Housing	\$450	Quarterly	10/05, 1/05, 9/04, 6/04, 3/04
Reprographics	\$500	Quarterly	9/04
UCS	\$651	Monthly	1/06, 11/05, 9/05, 6/05, 12/04
UCS	\$3,600	Monthly	7/05, 6/05, 5/05
Public Safety	\$1,700	Monthly	12/05, 10/05, 6/05, 5/05, 9/04

- ▶ One change fund greater than \$500 was not properly approved by the Department of Finance.

SAM §8111.2 states that an employee other than the custodian of the change or petty cash fund will count it in accordance with the following schedule:

Size of Fund	Frequency of Count
\$200 or less	Annually
\$200.01 to \$500	Quarterly
\$500.01 to \$2,500	Monthly

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 perform the missing audit counts as a result of employee attrition and did not obtain Department of Finance approval for the change fund exceeding \$500 due to oversight.

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

Recommendation 6

We recommend that the campus:

- a. Strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.
- b. 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.

- a. The manager of accounts payable will review and document each month the reconciliations of all petty cash funds required to be audited that month.

Corrective action has been completed.

- b. The university controller has submitted a letter to the Department of Finance requesting approval for an increase in the change fund for PTS.

Corrective action has been completed.

CASH DISBURSEMENTS

Bank reconciliations were not always timely prepared and complete.

Bank reconciliations for September, October, and November 2005 were completed from 93 to 124 days after month's end and were not always appropriately signed and dated by the reviewer.

SAM §7923 requires departments reconcile their end-of-the-month bank and centralized State Treasury system account balances monthly showing fund's share on the bank reconciliation and an explanation on the reconciliation of every reconciling item between the bank and the department's records.

SAM §8060 states that all bank and centralized State Treasury system accounts will be reconciled promptly at the end of each month.

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

The financial accounting manager stated that the delay in reconciliations was due to recent turnover of key accounting positions, and the reconciliations not signed and dated by the reviewer were due to oversight.

Untimely and incomplete reconciliations increase the risk that errors and irregularities will not be detected, state funds will be lost, and accountability compromised.

Recommendation 7

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination and ensure that all reconciliations are signed and dated by the preparer and reviewer.

Campus Response

We concur. The university controller has reminded staff of accounts payable and financial accounting both verbally and by e-mail message of the importance of both signing and dating all reconciliations. The university controller has sent a memorandum to managers in accounts payable and financial accounting reminding them of the necessity to cross-train at least two people to prepare all reconciliations.

Corrective action has been completed.

FIXED ASSETS

Assets were not timely recorded and reconciled to accounting records.

Our review disclosed that:

- ▶ One of ten property acquisitions reviewed from May 2004 to December 2005 was not recorded in the general ledger even though it was received in July 2005. This asset was valued at \$64,000.

- ▶ The most recent property reconciliation was for June 2005.

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 §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 assistant director of physical plant management and logistical services stated that the omission of the cited asset occurred during the conversion process from the old asset ledger system, BarScan, to the new PeopleSoft Asset Management system. He added that new assets received by the university were held until the new system was functional while copies of the receiving report were kept in a folder to be manually added to the new system. He further stated that paperwork for this item had been misplaced, which resulted in the asset never being recorded to the general ledger. The financial accounting manager stated that the campus had performed monthly property reconciliations prior to the implementation of the PeopleSoft Asset Management system on July 1, 2005; however, staffing shortages related to the implementation resulted in reconciliation delays.

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

Recommendation 8

We recommend that the campus:

- a. Establish procedures to ensure that property is recorded to the general ledger in a timely manner.
- b. Prepare property reconciliations on at least a quarterly basis.

Campus Response

We concur.

- a. Asset management and financial and accounting services have established and implemented procedures to ensure that property is recorded to the general ledger in a timely manner.

Corrective action has been completed.

- b. The university controller has directed financial accounting staff to prepare property reconciliations quarterly or more frequently.

Corrective action has been completed.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Jolene Koester	President
Al Arboleda	Information Security Officer
Robert Barker	University Controller and Associate Vice President for Financial and Accounting Services
Leeanna Berkeland	Accounting Technician
Ron Clouse	Director of Budget Planning and Management
Patricia Crespo	Business Manager, Intercollegiate Athletics
Mary Ann Cummins-Prager	Director, Center on Disabilities (COD)
John Darakjy	Assistant Director of Financial Services and Tax
Yvonne Davis	Director of Network Engineering and Operations
Margo Dutton	Assistant Director of Financial Accounting
Alfredo Fernandez	Captain, Parking and Transportation Services
Steve Fitzgerald	Chief Technology Officer
Robert Foldesi	Assistant Vice President for Human Resources
Eugene Garcia	Systems Analyst, Systems and Technology
Milten Garia	Manager of CMS Support Services
Vena Jordan	Special Events Coordinator, Public Safety Parking
Tamara Kotlyar	Accounting Technician
Larisa Laurel	Procurement Support Assistant
May Ligh	Manager of University Cash Services
Janet Lucas	Interim Athletics Director
Howard Lutwak	Director of Internal Audit
Angela McHugh	University Accounts Receivable Supervisor
Vickie Metcalfe	Payroll Specialist Analyst
Peggy Milkovich	Administrative Assistant, Public Safety Parking
Willie Miranda	Financial Accounting Manager
Bob Moulton	Interim Chief Information Officer
Charlie Neff	Accounting Manager, COD
Marian Nobleza	Fund Accountant
R. Carlos Penera	Student Accounting Technician
Laura Phung	Financial Assistant, COD
Mohammad Qayoumi	Vice President and Chief Financial Officer, Administration and Finance (At time of review)
Barbara Raymond	Trust Accountant
Judy Reyes	Accounts Payable Manager
Cindy Roseman	Accounting Technician
Mary Rueda	Manager of Purchasing and Contracts Administration
Kimberly Siemen	Financial Systems and Trust Accounting Manager
Bob Stark	Director of Application Development
James Stotler	Sergeant, Parking and Traffic Enforcement
Travis Thomas	Materials Manager
Renee Venezia	Manager of Payroll Administration/HRIS
Bruce Weinstein	Assistant Director of Physical Plant Management and Logistical Services

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

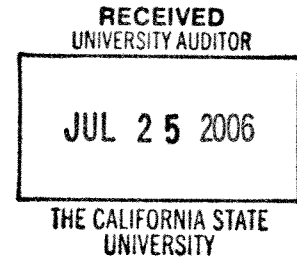
There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness,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

California State University
Northridge

Office of the Vice President
 Administration and Finance

July 25, 2006

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



Subject: Campus Response to Recommendations of Audit Report Number 06-01
 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 June 28, 2006. We have also sent this document via e-mail to adouglas@calstate.edu.

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,

A handwritten signature in black ink that reads "James F. Sullivan".

James F. Sullivan
 Vice President Administration and Finance and CFO

JS:jh

Enclosures

cc: Dr. Jolene Koester, President
 Howard Lutwak, Director, Internal Audit

FISMA

CALIFORNIA STATE UNIVERSITY,
NORTHRIDGEReport Number 06-01
June 19, 2006**CASH RECEIPTS****MAIN AND SATELLITE CASHIERING****Recommendation 1**

We recommend that the campus:

- a. Prepare documented reconciliations of parking permits issued to revenue recorded in the general ledger, including verification of decals issued and decals returned.
- b. Implement the use of transfer receipts at IA to localize accountability over currency and checks received and transferred to other locations.
- c. Establish procedures to prepare a prelisting of currency and checks received not payable to the university at UCS and the COD.
- d. Ensure that all checks received by athletics field personnel are restrictively endorsed by the end of the day.
- e. Ensure that all currency and checks received by athletics field personnel are adequately safeguarded in a secured storage facility upon receipt from customers and prior to deposit and secured in a locked bag when transferred inter-campus.
- f. Ensure that all IA funds are deposited within ten working days of receipt.

Campus Response

We concur.

- a. Administration and Finance has implemented periodic reconciliations of parking permits issued to revenue recorded in the general ledger.
- b. A cash transfer/receipt log has been implemented in IA.
- c. Written procedures have been established for the control and accountability of currency and checks received and not payable to the University.

- d. A memorandum was issued to all IA personnel that reiterates the requirement to bring all checks to the IA business office. In addition, the IA business office has obtained an additional endorsement stamp to facilitate endorsing the checks in a timely manner.
- e. A memorandum was issued to all IA personnel that reiterates the requirement to safeguard checks received by field personnel prior to bringing them to the IA business office. In addition, two locking deposit bags have been obtained to secure receipts when transferred.
- f. The University Controller has issued a memorandum to IA reiterating the requirement to deposit funds within ten working days of receipts.

Corrective action has been completed for items a through f.

FEE RECONCILIATIONS

Recommendation 2

We recommend that the campus strengthen controls to ensure that application and state university fee reconciliations are prepared in a timely and complete manner for each academic term.

Campus Response

We concur. Procedures for the reconciliation of application fees are being developed.

Expected completion date: September 1, 2006

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 timely invoiced to users.

Campus Response

We concur. The University Controller has reminded campus financial managers of the importance of submitting billing information timely by an emailed memo and will reinforce that reminder in person at the August 2006 meeting of the Academic Resources Council.

Expected completion date: August 22, 2006

PAYROLL ACCOUNTS RECEIVABLE

Recommendation 4

We recommend that the campus:

- a. Strengthen procedures to ensure that payroll accounts receivable are promptly pursued through the use of collection letters and tax offset.
- b. Analyze payroll accounts receivable to determine which receivables are uncollectible and write-off or request discharge from accountability, as warranted.
- c. Strengthen procedures to ensure that payments received against payroll accounts receivable are recorded to the general ledger in a timely manner.

Campus Response

We concur.

- a. Written procedures have been revised that provide specific guidelines for promptly pursuing payroll accounts receivables through the use of collection letters, payroll deduction, and tax offset.
- b. A payroll staff member will analyze payroll accounts receivables to determine which receivables appear to be uncollectible and will initiate a write-off or discharge of accountability.
- c. Procedures to ensure that payroll accounts receivable payments are recorded to the general ledger in a timely manner will be implemented. Payroll personnel will perform a monthly reconciliation of payroll accounts receivable recorded on the general ledger to the payroll office database.

Expected completion date: September 1, 2006

REVOLVING FUND

REVOLVING FUND RESOURCES

Recommendation 5

We recommend that the campus conduct an analysis of revolving fund activity and increase its size, if warranted.

Campus Response

We concur. The University Controller had planned to request an increase in CSUN's revolving fund allowance. However, recent legislative action approving the Fee Revenue Management Plan (student fees in trust) will reduce the use of the revolving fund to payments for construction services. The existing revolving fund allowance should be sufficient for that purpose.

Corrective action has been completed.

CHANGE AND PURCHASE FUNDS

Recommendation 6

We recommend that the campus:

- a. Strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.
- b. 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.

- a. The Manager of Accounts Payable will review and document each month the reconciliations of all petty cash funds required to be audited that month.

Corrective action has been completed.

- b. The University Controller has submitted a letter to the Department of Finance requesting approval for an increase in the change fund for Parking Services.

Corrective action has been completed.

CASH DISBURSEMENTS

Recommendation 7

We recommend that the campus designate and train alternate staff to complete reconciliations in the event of absence or termination and ensure that all reconciliations are signed and dated by the preparer and reviewer.

Campus Response

We concur. The University Controller has reminded staff of Accounts Payable and Financial Accounting both verbally and by email message of the importance of both signing and dating all reconciliations. The University Controller has sent a memorandum to managers in Accounts Payable and Financial Accounting reminding them of the necessity to cross-train at least two people to prepare all reconciliations.

Corrective action has been completed.

FIXED ASSETS

Recommendation 8

We recommend that the campus:

- a. Establish procedures to ensure that property is recorded to the general ledger in a timely manner.
- b. Prepare property reconciliations on at least a quarterly basis.

Campus Response

We concur.

- a. Asset Management and Financial and Accounting services have established and implemented procedures to ensure that property is recorded to the general ledger in a timely manner.

Corrective action has been completed.

- b. The University Controller has directed Financial Accounting staff to prepare property reconciliations quarterly, or more frequently.

Corrective action has been completed.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 9, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

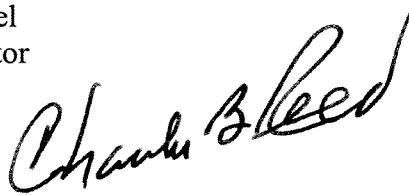
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 06-01 on *FISMA*,
California State University, Northridge

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of August 9, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, Northridge.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Jolene Koester, President,
Mr. Howard Lutwak, Director of Internal Audit
Dr. James F. Sullivan, Interim Vice President for Administration and Finance,
and Chief Financial Officer

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS