

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
LOS ANGELES**

**Report Number 06-04  
September 19, 2006**

---

**Members, Committee on Audit**

Raymond W. Holdsworth, Chair  
Debra S. Farar, Vice Chair  
Herbert L. Carter    Carol R. Chandler  
George G. Gowgani    William Hauck  
Glen O. Toney

---

**Staff**

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

---

**BOARD OF TRUSTEES  
THE CALIFORNIA STATE UNIVERSITY**

---

## CONTENTS

Executive Summary .....	1
Introduction.....	3
Purpose .....	3
Scope and Methodology .....	3

---

## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts.....	5
Accounts Receivable.....	9
Revolving Fund.....	11
Payroll and Personnel .....	12
Undelivered Warrants.....	12
Employee Separation.....	12

## **APPENDICES**

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

---

## **ABBREVIATIONS**

CSU	California State University
CSULA	California State University, Los Angeles
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
IA	Intercollegiate Athletics
ITS	Information Technology Services
POS	Point-of-Sale
PT	Parking and Transportation
SAM	State Administrative Manual
SCO	State Controller's Office
SHC	Student Health Center
TEC	Travel Expense Claim

---

## EXECUTIVE SUMMARY

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

California State University, Los Angeles (CSULA) 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 CSULA campus from May 1, 2006, through June 16, 2006, and made a study and evaluation of the accounting and administrative control in effect as of June 16, 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, and payroll and personnel. 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, CSULA's accounting and administrative control in effect as of June 16, 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 [5]**

Cash control weaknesses were found at each of the three satellite cashiering areas visited. Manual receipts issued by the student health center (SHC) when the cashiering system was inoperable were neither press-numbered nor adequately controlled. Parking permit reconciliation procedures did not ensure adequate accountability over parking permit inventory. Accountability for cash receipts was not always localized, administration of accounts receivable required improvement, and an adequate segregation of duties had not been established at the SHC. In addition, documentation of individuals with access to safes at intercollegiate athletics (IA) and parking and transportation was non-existent or incomplete, and the safe combination at IA was not changed after two employee separations. Further, certain unsold game tickets were not adequately controlled subsequent to sporting events.

### **ACCOUNTS RECEIVABLE [9]**

Pursuit of delinquent third-party and payroll accounts receivable needed improvement. Follow-up collection correspondence did not reference the original request, were not stated in a progressively stronger tone, and did not address further action to be taken for five of ten third-party receivables reviewed. In addition, a review of 20 payroll accounts receivable disclosed that collection letters had not been timely sent in two instances, which prevented submission of one of these accounts for tax offset.

### **REVOLVING FUND [11]**

Travel advances were not always recovered in a timely manner. A review of 12 travel advances issued between October 2005 and February 2006 disclosed that three advances with travel end dates from December 7, 2005, to March 3, 2006, had not been cleared as of June 8, 2006, which was 101 to 187 days past the end travel date. In one other instance, a travel expense claim was not completed until 194 days after the employee's travel end date.

### **PAYROLL AND PERSONNEL [12]**

Undelivered salary warrants were not properly controlled and remitted to the State Controller's Office (SCO) for final escheatment. Nine undelivered salary warrants totaling \$6,946, on hand more than 90 days, had not been remitted to the SCO as of our review in June 2006. Campus electronic employee separation clearance forms were not adequate to ensure complete clearance documentation. A review of ten employee separations disclosed that clearance documentation was insufficient in three instances.

---

## 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 February 2006. 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 16, 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**

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

The satellite cashiering locations reviewed included the student health center (SHC), parking and transportation (PT), and intercollegiate athletics (IA).

#### **Manual Receipts**

Manual receipts issued by the SHC when the cashiering system was inoperable were neither press-numbered nor adequately controlled.

Manual receipts issued when the cashiering system was inoperable lacked any type of pre-numbering. Additionally, access to the manual receipts was neither limited nor properly secured. As a result, revenue accountability was compromised and exposure to fraudulent activity was increased.

State Administrative Manual (SAM) §8020 states that all receipts, except transfer receipts, will be press-numbered and under inventory control.

The medical records supervisor stated that she was unaware of the requirements.

#### **Parking Permit Reconciliation**

Parking permit reconciliation procedures did not ensure adequate accountability over parking permit inventory.

Our review of the winter quarter 2005 reconciliation of parking permit inventory disclosed that current reconciliation procedures were not adequate to ensure accountability of permits sold, exchanged, returned, or gifted. The ending parking permit inventory balance was calculated as the difference between the beginning inventory balance and the number of permits on hand at the end of the quarter. A more reliable reconciliation could be calculated by subtracting the number of permits processed through the point-of-sale (POS) system during the quarter, including returned, exchanged, and gifted permits from the beginning inventory balance. This ending inventory balance would then be compared to the number of permits on hand.

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications.

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

The PT director stated that the POS system did not currently have the functionality to process exchanged, returned, and gifted parking permits.

### **Accountability**

Accountability for cash receipts was not always localized at the SHC.

We observed that the back-up cashier processed a transaction while the cashiering system was logged in with the main cashier's ID and password, which limited the accountability of cash receipts to a specific employee.

The California State University (CSU) *Information Security Policy*, dated August 2002, states that campus policies and procedures should provide for individual unique user ID/passwords (no shared IDs).

The medical records supervisor stated that this was an isolated incident.

### **Accounts Receivable**

Administration of accounts receivable at the SHC required improvement.

We found that:

- ▶ Patient account balances in the SHC receivables database (Excel spreadsheet) had not been updated for any activity (i.e., billing, payments, etc.) since 2004. As of the audit period, there was no list of current receivables. The SHC identified outstanding receivable balances through PeopleSoft, although the SHC did not have access to PeopleSoft to manage its accounts receivable.
- ▶ Follow-up procedures for outstanding accounts receivable were not adequate. Specifically, follow-up letters did not reference the original request, were not stated in a progressively stronger tone, and did not address further action if collection efforts had been exhausted.

State University Administrative Manual §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, and utilization of the offset claim procedures for accounts greater than \$10.

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

The medical records supervisor stated that the accounts receivable database had not been updated due to the implementation of system upgrades.

### **Separation of Duties**

An adequate segregation of duties had not been established at the SHC.

We found that a single staff member was able to perform all of the following duties: the receipt of cash, daily deposits, placement and removal of financial holds on delinquent student accounts, and the reconciliation of transactions.

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: maintaining books of original entry, receiving and depositing remittances, inputting receipts information, and reconciling input to output.

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

The medical records supervisor stated that she was unaware of the requirements.

### **Safe Access Records**

Documentation of individuals with access to safes at IA and PT was non-existent or incomplete, and the safe combination at IA was not changed after two employee separations.

We found that:

- ▶ IA did not maintain a written record of the names of the persons with knowledge of the safe combination and the date the combination was last changed. Additionally, the safe combination had not been changed after the separation of the associate director in May 2005 or the director in December 2005.
- ▶ PT safe access records failed to disclose two employees with knowledge of the safe combination.

SAM §8024 requires the campus to retain a record listing the names of persons knowing the present safe combination and the date the combination was last changed, and to change the safe combination when employees leave a department.

The assistant athletics director stated that current cash handling procedures required identification of the job positions with safe access, but did not require the names of the persons holding the positions nor the date the combination was last changed. He added that he was unaware of the SAM requirement and also stated that changing the safe combination was erroneously delayed until after the departure of the former athletics director. The PT director stated that the safe combination listing was not up-to-date due to oversight.

### **Unsold Game Tickets**

Certain unsold game tickets were not adequately controlled subsequent to sporting events.

Unsold game tickets from indoor sporting events (e.g., basketball and volleyball) were neither accounted for nor reconciled with event revenue and beginning ticket inventory subsequent to the event.

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 assistant athletics director stated that procedures had not been established for unsold game tickets.

Inadequate control over cash receipts and outstanding SHC accounts receivable increases campus exposure to loss from inappropriate acts.

### **Recommendation 1**

We recommend that the campus:

- a. Discontinue use of the current manual receipts at the SHC and implement the use of press-numbered receipts that are maintained under inventory control.
- b. Program the PT POS system to process returned, exchanged, and gifted parking permits and revise current parking permit reconciliation procedures to incorporate POS system data when reconciling parking permit inventory.
- c. Require SHC cashiers to log-off the cashiering system when the cashier's window is unattended.
- d. Promptly update SHC patient accounts receivable balances, establish procedures to update the accounts receivable database monthly, and strengthen procedures to ensure that delinquent accounts receivable are promptly pursued.
- e. Review SHC cash receipt and delinquent account duties and take appropriate action to either segregate incompatible duties or implement mitigating controls.
- f. Change the safe combination at IA and maintain a list of persons with access to the safe and the date the safe combination was last changed, and update PT safe access records.
- g. Establish procedures to reconcile unsold indoor sporting events game tickets subsequent to the event to ensure adequate accountability over revenue.

### **Campus Response**

- a. Generic (non-numbered, manual) receipts have been discontinued, and the SHC now provides pre-numbered receipts providing reconciliation and/or inventory processes.
- b. The PT Service Center's POS system was recently updated to process exchanged and gifted permits. Due to software constraints, returned permits could not be added to the POS system; however, they require completed refund petitions in order to be processed. These petitions are filed, and the data is then transferred to an electronic spreadsheet for reconciling purposes.
- c. The SHC cashier will log off when the window is unattended.
- d. The SHC cashier computer has been upgraded, navigation pathways reestablished, and the cashier has been instructed to update the computer file. In addition, SHC will work with accounting to update SHC's collection procedures. We anticipate completing the project by January 31, 2007.
- e. The cashier will perform the receipting of cash. The administrative support coordinator will verify and sign off daily deposits. The administrative assistant will be responsible for reconciliation of SHC trust accounts.
- f. The combination to the IA safe was changed on June 16, 2006. In addition, the list of individuals with access to the IA safe and knowledge of the combination and the date when it was last changed will be maintained. The PT safe combination listing has since been updated.
- g. The cash handling procedures have been revised to ensure that all unsold game tickets are accounted for when the assistant athletics director of finance verifies and signs off on the gate receipts report.

### **ACCOUNTS RECEIVABLE**

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

#### **Third-Party and Student Receivables**

Our review of ten third-party accounts receivable as of February 28, 2006, and campus collection procedures disclosed that follow-up collection correspondence (i.e., e-mails and collection letters) did not reference the original request, were not stated in a progressively stronger tone, and did not address further action to be taken for five of ten third-party receivables reviewed.

SAM §8776.6 states that once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up

letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

The university controller stated that collection correspondence followed procedures and were sent at 30-day intervals; however, in some cases, it did not reference the original request.

### **Payroll Receivables**

Our review of 20 payroll accounts receivable established between June 2004 and March 2006 disclosed that collection letters had not been timely sent in two instances. In addition, insufficient collection activity prevented submission of one of these accounts to the Franchise Tax Board for tax offset.

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 (SCO).

SAM §8776.6 and §8776.7 provide 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.

The payroll manager stated that collection letters were sent according to procedures; however, the intense efforts required for system projects caused some delays in daily processing as noted in the two exceptions. She further noted that completion of the labor cost distribution implementation would allow for the return to normal processing.

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

### **Recommendation 2**

We recommend that the campus strengthen procedures to ensure that delinquent accounts receivable are promptly pursued for collection or tax offset, including the use of a series of three collection letters sent at 30-day intervals in a progressively stronger tone and further actions to be taken in the collection process.

### **Campus Response**

The staff has been notified of the enhanced collection procedures to include original account receivable request reference and collection warnings, which will include further actions to be taken in the collection process.

## **REVOLVING FUND**

Travel advances were not always recovered in a timely manner.

Our review of 12 travel advances issued between October 2005 and February 2006 disclosed that three advances with travel end dates from December 7, 2005, to March 3, 2006, had not been cleared as of June 8, 2006, which was 101 to 187 days past the end travel date. In one other instance, a travel expense claim (TEC) was not completed until 194 days after the employee's travel end date.

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

CSU directive HR 2005-49, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated December 16, 2005, states, in part, that the TEC must be submitted within a reasonable period of time not to exceed 60 days.

The university controller stated that reminders/follow-ups were sent to the employees, but they did not respond timely.

Insufficient control over travel expenses increases the risk that revolving fund monies may be expended for inappropriate purposes.

### **Recommendation 3**

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

### **Campus Response**

A letter has been sent to senior management reminding them of current procedures to clear travel advances within 60 days of travel.

## **PAYROLL AND PERSONNEL**

### **UNDELIVERED WARRANTS**

Undelivered salary warrants were not properly controlled and remitted to the SCO for final escheatment.

We found that nine undelivered salary warrants totaling \$6,946, on hand more than 90 days (125 to 2,533 days after the check date), had not been remitted to the SCO as of our review in June 2006. In addition, no documented evidence of employee follow-up or research could be provided, and procedures had not been established to deposit and remit undelivered warrants on hand greater than 90 days to the SCO, including the department ultimately responsible for the disposition of undelivered warrants.

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

The university controller stated that the salary warrants were resolved; however, due to oversight, the checks remained in the safe.

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

#### **Recommendation 4**

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

#### **Campus Response**

Procedures have been updated to include periodic review and final remittance of undelivered salary warrants.

### **EMPLOYEE SEPARATION**

Campus electronic employee separation clearance forms were not adequate to ensure complete clearance documentation.

Our review of ten employee separations dated between July 2004 and February 2006 disclosed that, in the three instances where the electronic clearance forms were used, clearance documentation was insufficient. For example, the electronic clearance form did not have a section to state whether the

employee was cleared from revolving fund advances (travel and salary) and the return of keys, equipment, credit cards, etc.

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 director of human resources stated that the electronic separation form process was relatively new and might require some modifications.

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

### **Recommendation 5**

We recommend that the campus revise the electronic separation form to ensure complete clearance documentation.

### **Campus Response**

Human resources management is currently working with information technology services (ITS) to modify the online separation process to include a clearance from the appropriate departments, such as the library, credit union, public safety, and ITS. ITS has a prototype that should be ready for testing and implementation by or before December 31, 2006.

---

## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
James M. Rosser	President
Lee De Leon	Assistant Athletics Director
Kimberly Evans	Parking Permit Coordinator
Edward Feighery	Director, Student Financial Services
Annette Felix	Parking Accountant
Carmen Gachupin	Director, Parking and Transportation Services
Steven Garcia	Vice President, Administration and Finance
Heydi Garcia-Rojas	Transportation Specialist
Betina Gomez	Records Clerk
Patti Higuchi	Director, Administrative Technology
Bob Hoffman	Manager, Data Center Operations
Thomas Johnson	Director, Procurement and Contracts
Henry Laio	Lead Enterprise Architect
Yuet Lee	Assistant Vice President, Administration and Finance
Thomas Leung	University Controller
Jorge Lomeli	Administrative Technology Consultant
Michael Perry	Senior Internal Auditor
Peter Quan	Vice President and Chief Technology Officer
Blanca Rodriguez	Payroll Manager
Lisa Sanchez	Director, Human Resources
John Tcheng	Student Aid and Investment Services Manager
Sandra Totsis	Medical Records Supervisor
Joanne Tsuyuki	Library Administrative Services Officer
Ronnie Wills	Operations Supervisor, Student Financial Services
Steven Yim	University Internal Auditor (At time of Review)

## **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.

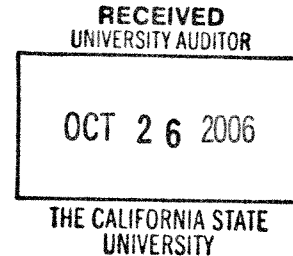


CALIFORNIA STATE UNIVERSITY, LOS ANGELES

OFFICE OF THE PRESIDENT

October 25, 2006

Mr. Larry Mandel, University Auditor  
Office of the University Auditor  
Office of the Chancellor – The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802-4210




Re: *University's Response to Recommendations Contained in Report Number 06-04  
FISMA - CSULA*

  
Dear Mr. Mandel:

Attached are the University's responses to the recommendations contained in Report Number 06-04, *FISMA*.

Please contact Ms. Tanya Ho, Campus Internal Auditor, at (323) 343-5102, if you wish to discuss any matter contained herein.

Sincerely,

  
James M. Rosser  
President

Attachment

cc: (with attachments)  
Steven N. Garcia, Vice-President for Administration and Chief Financial Officer  
Yuet Lee, AVP for Administration and Finance  
Tanya Ho, Campus Internal Auditor

## FISMA

CALIFORNIA STATE UNIVERSITY,  
LOS ANGELESReport Number 06-04  
September 19, 2006**CASH RECEIPTS****Recommendation 1**

We recommend that the campus:

- a. Discontinue use of the current manual receipts at the SHC and implement the use of press-numbered receipts that are maintained under inventory control.
- b. Program the PT POS system to process returned, exchanged, and gifted parking permits and revise current parking permit reconciliation procedures to incorporate POS system data when reconciling parking permit inventory.
- c. Require SHC cashiers to log-off the cashiering system when the cashier's window is unattended.
- d. Promptly update SHC patient accounts receivable balances, establish procedures to update the accounts receivable database monthly, and strengthen procedures to ensure that delinquent accounts receivable are promptly pursued.
- e. Review SHC cash receipt and delinquent account duties and take appropriate action to either segregate incompatible duties or implement mitigating controls.
- f. Change the safe combination at IA and maintain a list of persons with access to the safe and the date the safe combination was last changed, and update PT safe access records.
- g. Establish procedures to reconcile unsold indoor sporting events game tickets subsequent to the event to ensure adequate accountability over revenue.

**Campus Response**

- a. Generic (non-numbered, manual) receipts have been discontinued and the SHC now provides pre-numbered receipts providing reconciliation and/or inventory processes.
- b. The P&T Service Center's POS system was recently updated to process exchanged and gifted permits. Due to software constraints, returned permits could not be added to the POS system, however they require completed refund petitions in order to be processed. These petitions are filed and the data is then transferred to an electronic spreadsheet for reconciling purposes.

- c. The SHC cashier will log off when the window is unattended.
- d. The SHC Cashier computer has been upgraded, navigation pathways re-established and the Cashier has been instructed to update the computer file. In addition, SHC will work with Accounting to update SHC's collection procedures. We anticipate completing the project by January 31, 2007.
- e. The Cashier will perform the receipting of cash. The Administrative Support Coordinator will verify and sign off daily deposits. The Administrative Assistant will be responsible for reconciliation of SHC Trust Accounts.
- f. The combination to the IA safe was changed on 6/16/06. In addition, the list of individuals with access to the IA safe and knowledge of the combination and the date when it was last changed will be maintained. The PT safe combination listing has since been updated.
- g. The cash handling procedures have been revised to ensure that all unsold game tickets are accounted for when the Assistant Athletics Director of Finance verifies and signs off on the gate receipts report.

## **ACCOUNTS RECEIVABLE**

### **Recommendation 2**

We recommend that the campus strengthen procedures to ensure that delinquent accounts receivable are promptly pursued for collection or tax offset, including the use of a series of three collection letters sent at 30-day intervals in a progressively stronger tone and further actions to be taken in the collection process.

### **Campus Response**

The staff has been notified of the enhanced collection procedures to include original account receivable request reference and collection warnings which will include the further actions to be taken in the collection process.

## **REVOLVING FUND**

### **Recommendation 3**

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

### **Campus Response**

A letter has been sent to the senior management reminding them of current procedures to clear travel advances within 60 days of travel.

## **PAYROLL AND PERSONNEL**

### **UNDELIVERED WARRANTS**

#### **Recommendation 4**

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

#### **Campus Response**

Procedures have been updated to include periodic review and final remittance of undelivered salary warrants.

### **EMPLOYEE SEPARATION**

#### **Recommendation 5**

We recommend that the campus revise the electronic separation form to ensure complete clearance documentation.

#### **Campus Response**

Human Resources Management is currently working with Information Technology Services to modify the online separation process to include a clearance from the appropriate departments, such as the library, credit union, Public Safety and Information Technology Services. ITS has a prototype that should be ready for testing and implementation by or before December 31, 2006.

  
**THE CALIFORNIA STATE UNIVERSITY**  
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 15, 2006

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

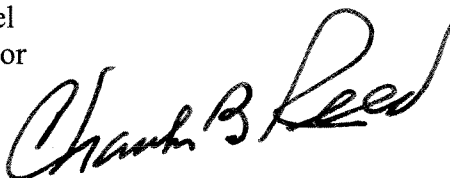
EAST BAY

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 06-04 on *FISMA*,  
California State University, Los Angeles

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of November 15, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, Los Angeles.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Ms. Tanya Ho, University Internal Auditor  
Dr. James M. Rosser, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS