

FISMA

**CALIFORNIA STATE UNIVERSITY,
LOS ANGELES**

**Audit Report 08-04
May 23, 2008**

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ABBREVIATIONS

CSU	California State University
CSULA	California State University, Los Angeles
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
SAM	State Administrative Manual

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, Government Code (GC) Sections 13400 through 13407. 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 GC, 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 GC, 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.
- ▶ Established controls are not only effective but also promote operational efficiency.
- ▶ 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 March 3, 2008, through March 28, 2008, and made a study and evaluation of the accounting and administrative control in effect as of March 28, 2008. 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: accounts receivable 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, CSULA's accounting and administrative control in effect as of March 28, 2008, 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.

ACCOUNTS RECEIVABLE [7]

Pursuit of delinquent student and auxiliary accounts receivable needed improvement. A review of 22 delinquent accounts receivables as of December 31, 2007, and campus collection procedures disclosed that in four instances, follow-up collection correspondence (i.e., e-mails and collection letters) for student accounts receivable was not sent in 30-day intervals, did not reference the original request, was not stated in a progressively stronger tone, and did not address further action to be taken. In addition, four separate accounts receivables for University Auxiliary Services were past-due between 94 and 1,008 days and had balances in aggregate of \$6,213.15.

FIXED ASSETS [8]

Fixed asset reconciliations were not timely performed or signed and dated by the preparer and reviewer. In addition, property loan agreement forms were not always completed and approved for off-campus use of university laptops. A review of ten laptops utilized by campus personnel disclosed that property loan agreement forms were not completed for three laptops used off-campus.

INTRODUCTION

STATEMENT OF INTERNAL CONTROLS

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. The ultimate responsibility for good internal control rests with management.

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, personnel of a quality commensurate with responsibilities, and an effective system of internal review.

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.

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.

Experience indicates that the existence of certain danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individual units or activities, and generally include any of the following danger signals:

- ▶ Policy and procedural or operational manuals are either not currently maintained or are non-existent.
- ▶ Lines of organizational authority and responsibility are not clearly articulated or are non-existent.
- ▶ Financial and operational reporting is not timely and is not used as an effective management tool.

- ▶ Line supervisors ignore or do not adequately monitor control compliance.
- ▶ No procedures are established to assure that controls in all areas of operation are evaluated on a reasonable and timely basis.
- ▶ Internal control weaknesses detected are not acted upon in a timely fashion.
- ▶ Controls and/or control evaluations bear little relationship to organizational exposure to risk of loss or resources.

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.

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.
- ▶ Operating 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 2006/07 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 2006 to December 2007. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ 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 operating 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.

INTRODUCTION

We have not performed any auditing procedures beyond March 28, 2008. 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

ACCOUNTS RECEIVABLE

Pursuit of delinquent student and auxiliary accounts receivable needed improvement.

Our review of 22 delinquent accounts receivables of December 31, 2007, and campus collection procedures disclosed that:

- ▶ In four instances, follow-up collection correspondence (i.e., e-mails and collection letters) for student accounts receivable was not sent in 30-day intervals, did not reference the original request, was not stated in a progressively stronger tone, and did not address further action to be taken.
- ▶ Four separate accounts receivables for the University Auxiliary Services were past-due between 94 and 1,008 days and had balances in aggregate of \$6,213.15.

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.

State Administrative Manual (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. If the three collection letters are unsuccessful, departments should initiate further action such as offset procedures or using a collection agency.

The director of student financial services stated that the campus is a quarter-campus and established a quarterly student billing schedule that incorporates the academic calendar for drop-and-add deadlines and financial aid processing schedules and that this procedure was established over ten years ago. He also stated that since the procedures had not been an issue in the past, it was not updated. The associate vice president of administration and finance stated that the university meets with the auxiliaries regularly to review outstanding invoices; however, due to the relationship between the university and its auxiliaries, there is no net financial impact to the university's consolidated financial statements, and the university's practice has been not to send auxiliaries to outside collections.

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

Recommendation 1

We recommend that the campus strengthen procedures to ensure that delinquent accounts receivable are promptly pursued.

Campus Response

Student Receivable — The campus will revise the current student billing procedure to include language of stronger intent on the bill to ensure collection efforts on delinquent balances. This revision will take effect by October 2008.

Auxiliary Receivable — The campus will revise the current collection procedures to ensure that collection efforts are sufficiently documented and all delinquent accounts receivable are promptly pursued. We anticipate completion by September 2008.

FIXED ASSETS

FIXED ASSET RECONCILIATIONS

Fixed asset reconciliations were not timely performed or signed and dated by the preparer and reviewer.

The campus performed an annual rather than monthly or quarterly fixed asset reconciliation for the period of June 30, 2006, through June 30, 2007. We also noted that the reconciliation was not signed and dated by the preparer and reviewer.

SAM §7908 states that all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

SAM §7924 requires that departments reconcile property at least quarterly or monthly depending upon the volume of property transactions. Agencies will reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

The university controller stated that the campus reconciles fixed assets using system generated queries and spreadsheets and that the spreadsheets were kept in the computer.

Incomplete or untimely reconciliations increase the risk of misstated property records and theft or loss of state property.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that reconciliations are timely and properly completed to include the name and date of the preparer and reviewer.

Campus Response

Procedures have been updated to include quarterly reconciliation with the name and date of the preparer and the approval by management. We anticipate implementation on July 2008.

EQUIPMENT ACCOUNTABILITY

Property loan agreement forms were not always completed and approved for off-campus use of university laptops.

Our review of ten laptops utilized by campus personnel disclosed that property loan agreement forms were not completed for three laptops used off-campus.

The California State University, Los Angeles *Property Control Procedures* states that university property may not be removed from the campus except for official use and approval must be in writing and recorded on a property loan agreement form.

Executive Order 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use.

The university controller stated that the campus has established procedures for equipment removal; however, a few department users failed to follow established procedures.

Insufficient control over property increases the risk of unauthorized use and loss of state property.

Recommendation 3

We recommend that the campus ensure that property loan agreement forms are used for equipment taken off-campus.

Campus Response

A memorandum will be sent out by the vice president of administration and chief financial officer to senior management reminding them of current Administrative Procedure 507 requiring the approval and recording of all property removed from the campus for official use on a property loan agreement form. We anticipate completion by August 2008.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
James M. Rosser	President
Cynthia Burks	Supervisor, General Accounting
Laura Carlson-Weiner	Director, Advancement Services
Christopher Castoreno	Administrative Coordinator, Parking and Transportation
Betina Cervantes	Coordinator, Rideshare Program
Steve Chan	Financial and Tax Reporting Manager
Linda Chow	Supervisor, Accounts Payable
Danica Elliott	Office Manager
Ann Harris	Assistant Controller
Patty Higuchi	Director, Administrative Technology and Support Services
Tanya Ho	University Internal Auditor
Thomas Johnson	Director, Procurement and Contracts
Yuet Lee	Associate Vice President, Administration and Finance
Christine Leung	Senior Internal Auditor
Thomas Leung	University Controller
Jorge Lomeli	Administrative Technology Consultant
Joan Lopez	Operations Supervisor, Cashier's Office
Mitra Nasri	Supervisor, Property Management
George Pardon	Vice President of Administration and Chief Financial Officer
Lori Plekker	Supervisor, Student Financial Services
Blanca Rodriguez	Payroll Manager
Lisa Sanchez	Director, Human Resources Management
Nick Santoianni	Information Technology Consultant, Administrative Technology
Christine Soto	Receptionist, Business Financial Services
Paula Tcheng	Supervisor, Auxiliary Accounting and Reporting
Jenny Tran	Auxiliary Accounting Technician
Susan Varela	Employment Services Manager
Ronnie Wills	Director, Student Financial Services



CALIFORNIA STATE UNIVERSITY, LOS ANGELES

OFFICE OF THE PRESIDENT

July 7, 2008

RECEIVED
UNIVERSITY AUDITOR

JUN 30 2008

THE CALIFORNIA STATE
UNIVERSITY

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

Re: *University's Response to Recommendations Contained in Report Number 08-04
FISMA - CSULA*

Dear Mr. Mandel:

Attached are the University's responses to the recommendations contained in Report Number 08-04, Financial Integrity and State Manager's Accountability Act (FISMA).

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

Sincerely,

A handwritten signature in black ink that reads "James M. Rosser".

James M. Rosser
President

Attachment

cc: (with attachment)
George Pardon, Vice President for Administration and Chief Financial Officer
Tanya Ho, University Internal Auditor

FISMA

**CALIFORNIA STATE UNIVERSITY,
LOS ANGELES**

Audit Report 08-04

ACCOUNTS RECEIVABLE

Recommendation 1

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Auxiliary Receivable - campus will revise the current collection procedures to ensure that collection efforts are sufficiently documented and all delinquent accounts receivable are promptly pursued. We anticipate completion by September 2008.

FIXED ASSETS

FIXED ASSET RECONCILIATIONS

Recommendation 2

We recommend that the campus strengthen procedures to ensure that reconciliations are timely and properly completed to include the name and date of the preparer and reviewer.

Campus Response

Procedures have been updated to include quarterly reconciliation with name and date of the preparer, and the approval by the management. We anticipate implementation on July 1, 2008.

EQUIPMENT ACCOUNTABILITY

Recommendation 3

We recommend that the campus ensure that property loan agreement forms are used for equipment taken off-campus.

Campus Response

A memorandum will be sent out by the Vice President for Administration and Chief Financial Officer to senior management reminding them of current Administrative Procedure 507 requiring the approval and recording of all property removed from the campus for official use on a Property Loan Agreement form. We anticipate completion by August 2008.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

July 14, 2008

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

PULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 08-04 on *FISMA*,
California State University, Los Angeles

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 14, 2008, I accept the response as submitted with the draft final report on *FISMA*, California State University, Los Angeles.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Ms. Tanya Ho, University Internal Auditor
Mr. George Pardon, Vice President, Administration and
Chief Financial Officer
Dr. James M. Rosser, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS