

FISMA

**CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS**

**Audit Report 09-07
August 24, 2009**

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ABBREVIATIONS

AP	Accounts Payable
CEIE	College of Extended and International Education
CSU	California State University
CSUDH	California State University, Dominguez Hills
EHDB	Employment History Database
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
HR	Human Resources
PIMS	Personnel Information Management System
PS	PeopleSoft
SAM	State Administrative Manual
SCO	State Controller's Office
SF	Student Finance
SHC	Student Health Center
UHS	University Housing Services

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, Dominguez Hills (CSUDH) 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 CSUDH campus from March 23, 2009, through April 10, 2009, and made a study and evaluation of the accounting and administrative control in effect as of April 10, 2009. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivables, payroll, and reconciliations. 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, CSUDH's accounting and administrative control in effect as of April 10, 2009, 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 [7]

Cash control weaknesses were found at the main cashiering area and the three satellite cashiering areas visited. The satellite cashiering locations reviewed included university housing, the College of Extended and International Education, and the student health center. Checks were not always restrictively endorsed on the day of receipt in the accounting and payroll departments.

ACCOUNTS RECEIVABLE [11]

Collection of student receivables was not always performed in a timely manner, and written notification was not always provided for employee receivables. Write-offs of long-outstanding student accounts receivables were not always properly approved.

CASH DISBURSEMENTS [15]

Individuals responsible for processing payments had access to the vendor master file.

PAYROLL [16]

Duties and responsibilities related to payroll functions were not properly segregated.

RECONCILIATIONS [17]

Certain reconciliations were not always performed in a timely manner.

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 manner.
- ▶ Controls and/or control evaluations have 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 objectives were to assess the adequacy of the systems of internal accounting and administrative control and to determine whether financial operations were conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor. Specifically, we sought assurances that:

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, systems output, or accounting entries are reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

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 2007/08 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 October 2008 to March 2009. Our primary focus was on internal controls.

A preliminary survey of the campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the campus. Our assessment of risk was based upon a systematic process using management's feedback and professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Administration and reconciliation of bank accounts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Adequate segregation of duties regarding authorization and payment of cash disbursements and appropriate controls over campus vendors.
- ▶ Approval of purchases and reconciliation of expenditures to State Controller's balances.
- ▶ Authorization and proper classification of personnel/payroll transactions.
- ▶ Posting of the property ledger and monthly reconciliation of the property to the general ledger.
- ▶ Access restrictions to accounting systems.
- ▶ Accounting of trust funds.

INTRODUCTION

We have not performed any auditing procedures beyond April 10, 2009. 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 the main cashiering area and the three satellite cashiering areas visited.

The satellite cashiering locations reviewed were university housing services (UHS), the College of Extended and International Education (CEIE), and the student health center (SHC). We found the following:

Main Cashiering

- ▶ Duties and responsibilities related to cashiering were not properly segregated. Based on assigned PeopleSoft (PS) access roles, we found that the cashiering coordinator, who occasionally worked as a backup window cashier, had the ability to reverse charges and process student refunds in PS Student Finance (SF). In addition, the cashiering coordinator also had the ability to generate journals and to run student refund processes in PS Finance, although she had not used this access.
- ▶ Deposits from the main cashier to the bank were not always timely. When we reviewed bank deposits for a three-week period of time, we found that in five instances, the deposits were not made on the day following the collection of the monies. In each of these instances, cash collections were over \$1,000, and check collections were over \$10,000.

State Administrative Manual (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: receiving and depositing remittances, inputting receipts information, or reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions.

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

The California State University Dominguez Hills *Daily Bank Deposit* policy, dated March 23, 2009, states that all currency, coins, and checks are to be deposited to Wells Fargo Bank via armored car service the next business day after they are received.

SAM §8032.1 states that agencies are required to deposit receipts in a timely and economical manner. It further states that agencies with safes, vaults, or other comparable storage will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders and warrants, whichever occurs first.

The director of accounting services stated that student account access was provided to the cashiering supervisor in order for her to reverse charges made in error by the cashiers and that this individual only worked as a backup cashier in very busy times. In addition, she stated that some deposits may not have been made in a timely manner because the time period we reviewed was particularly busy (the first week back following the holiday break and the first two weeks of spring classes) and because the campus had recently implemented the new PS SF system in the fall. She added that the cashiers were still becoming familiar with the system, making it more difficult for them to catch up on their work.

University Housing Services

Duties and responsibilities related to cashiering were not properly segregated. We found that one employee, the administration operations coordinator, posted housing charges on student accounts, created invoices and billings, performed collections on accounts, and received and processed payments, which included creating and reconciling deposits.

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: receiving and depositing remittances, inputting receipts information, or reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions.

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

The director of UHS stated that a second employee that normally assists with the reconciliation process was on disability leave; and in this person's absence, the remaining employee handled all the billing and receiving functions.

College of Extended and International Education

Duties and responsibilities relating to cashiering were not properly segregated. We found that one employee performed collection activities, had the ability to receive and process payments, and performed student write-offs.

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: receiving and depositing remittances, inputting receipts information, or reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions.

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

The director of CEIE operations stated that CEIE cashiering staff does not have the ability to apply, process, or credit payments to student accounts and that he approved write-offs before they were processed. He further stated that the main cashiering office and accounting services staff process and apply payments to student accounts in PS.

Student Health Center

Duties and responsibilities relating to cashiering were not properly segregated. We found that one employee established and collected accounts receivable, as well as receiving and processing payments.

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: receiving and depositing remittances, inputting receipts information, or initiating or preparing invoices.

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

The director of student health and psychological services stated that she has maximized segregation of duties to the greatest extent possible, given the limited number of staff.

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

Recommendation 1

We recommend that the campus:

- a. Remove the cashiering coordinator's access so that she can no longer reverse charges and process student refunds or generate journals and run student refund processes in PS SF, or implement compensating controls.
- b. Use system queries and reports to monitor individually processed student refunds and reversals.
- c. Reinforce established procedures to ensure that the main cashier's deposits to Wells Fargo Bank are made in a timely manner.
- d. Implement appropriate segregation of duties in UHS cashiering. This could include assigning a second employee to log payments and to review the deposit to the main cashier.
- e. Implement appropriate segregation of duties in CEIE cashiering. This could include ensuring that the employee who performs collection activities no longer has the access necessary to receive and post student payments.

- f. Implement appropriate segregation of duties in SHC cashiering. This could include assigning accounts receivable duties to an employee who does not have cashiering duties.

Campus Response

We concur.

- a. Access to process student refunds, generate journals, and to run student refund processes in PS SF has been removed from the cashier coordinator's access. The cashier manager will develop and implement compensating controls to allow the cashier coordinator to reverse charges only when necessary.

Expected completion date: October 2009

- b. System queries and reports are being used to monitor individually processed student refunds and reversals.
- c. Established procedures to ensure that the main cashier's deposits to Wells Fargo Bank are made in a timely manner have been reinforced with the cashier manager and staff.
- d. UHS has implemented appropriate segregation of duties in UHS cashiering by assigning a second employee to log payments and to review the deposit to the main cashier, and a third employee is taking the payments down to the cashier's office.
- e. CEIE has implemented appropriate compensation controls to ensure segregation of duties in CEIE cashiering, with receivables and final write-off approvals processed by separate employees.
- f. SHC has implemented appropriate segregation of duties in SHC cashiering by assigning accounts receivable duties to an employee who does not have cashiering duties.

CHECK ENDORSEMENT

Checks were not always restrictively endorsed on the day of receipt in the accounting and payroll departments.

We found that:

- ▶ Third-party receivable checks were delivered to the accounting department for processing before being sent to the main cashier for deposit. On occasion, the accounting department kept checks for up to three days before processing them.
- ▶ Check payments for employee receivables were made directly to the payroll department. The payroll department usually delivered these checks to the main cashier on Wednesdays and

Fridays, resulting in some checks being held in the payroll department for up to three days before being processed.

SAM §8023 states that all checks, money orders, and warrants received for deposit will be restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

The accounting services manager stated that occasionally the department held checks for a short time in order to research where to post entries before taking them to the main cashier. The payroll manager stated that the employee receivable checks were processed on Wednesdays and Fridays, but that the checks did not need to be kept in the department and would be delivered to the main cashier daily in the future.

Untimely endorsement of checks increases the risk of funds not being deposited correctly or not being deposited at all.

Recommendation 2

We recommend that the campus provide endorsement stamps to the accounting and payroll departments for same-day endorsement of checks or have these departments forward the checks to the main cashier on the same day that they are received.

Campus Response

We concur. The accounting and payroll departments will forward the checks to the main cashier on the same day; but if they need an additional day to research where to deposit the funds, they will endorse the checks.

Expected completion date: October 2009

ACCOUNTS RECEIVABLE

COLLECTIONS

Collection of student receivables was not always performed in a timely manner, and written notification was not always provided for employee receivables.

We reviewed ten student receivables that were outstanding as of January 31, 2009; eight CEIE student receivables that were outstanding as of March 31, 2009; and ten employee receivables that were outstanding as of December 31, 2008. We found the following:

- ▶ In three instances, the first past-due notices for student receivables were sent four months after the charges were due. In another instance, no past-due notice had been sent for a charge incurred

six months previously. The campus policy is to send the first past-due notice 90 days after the due date of a charge.

- ▶ In five instances, students were allowed to register for the spring 2009 semester even though they had past-due balances of \$1,000 or greater remaining from fall 2008. Holds on these accounts were either placed late or removed during registration.
- ▶ Three student receivables that were 11 months or older were not appropriately sent to a collection agency.
- ▶ Six CEIE receivables showed gaps between collection letters ranging from two months to eight months in length.
- ▶ For seven employee receivables, written notification to the employees was not available.

SAM §8776.6 requires that each department develop collection procedures that will ensure prompt follow-up on receivables. These include sending a sequence of three collection letters at 30-day intervals with progressively stronger tones and, if necessary, submitting the receivable to the Franchise Tax Board and/or collection agencies.

SAM §8776.7 includes procedures to be employed in the collection of amounts due from employees. These procedures include notifying the employee of the receivable in writing and documenting any response by the employee, including his/her agreement to repay the state.

The director of accounting services stated that the reason the campus sends out its initial past-due notices 90 days after a charge is due is to ensure that early registrants who do not have a payment due are not sent erroneous notices. In addition, she stated that at one point collection processes had been put on hold because of the conversion to PS SF, which led to student accounts on both the old and new systems. The director of CEIE operations stated that there had been delays in sending collection letters due to the PS SF conversion and that the CEIE staff had been heavily involved in conversion efforts. He further stated that since the campus is now using PS SF, such delays will no longer occur. The payroll manager stated that if an employee was already aware of a receivable, the payroll technician might have spoken to the employee on the phone to set up the payroll deduction. In those cases, the campus did not provide the employee with written notification.

Inadequate control over accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk that receivables will not be properly reflected in the campus' financial statements.

Recommendation 3

We recommend that the campus:

- a. Revise policies for student and CEIE receivables to ensure that initial past-due notices are sent 30 days after the due date of charges and that collection efforts are promptly and appropriately pursued.
- b. Ensure that initial notification letters are sent in a timely manner for outstanding employee receivables and that collection efforts are promptly and appropriately pursued.

Campus Response

We concur.

- a. Revised policies for student and CEIE receivables will be developed to ensure that initial past-due notices are sent 30 days after the due date of charges and collection efforts are promptly and appropriately pursued.
- b. Procedures will be developed to ensure that initial notification letters are sent in a timely manner for outstanding employee receivables and that collection efforts are promptly and appropriately pursued.

Expected completion date: December 2009

WRITE-OFFS

Write-offs of long outstanding accounts receivables were not always properly approved.

When we reviewed 14 accounts receivable that had been past due since June 2007, we found the following:

- ▶ One receivable for CEIE was written off without proper approval. Write-offs were processed by a CEIE accounting technician and approved by the director of CEIE operations. However, neither of these employees had the appropriate delegated authority to approve write-offs.
- ▶ Five receivables that were each over \$1,000 were written off without being sent to the State Controller's Office (SCO) for discharge of accountability. These receivables had been outstanding for approximately four months to four years before being written off.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, as well as specific requirements for filing applications for discharge from accountability with the SCO.

Executive Order (EO) 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts outlined in SAM §8776.6, which includes procedures that ensure prompt follow-up on receivables. EO 616 also delegates authority to the campus for local adjustments of up to \$1,000 when the campus determines that a receivable is uncollectible or that the amount does not justify the collection costs.

The director of CEIE operations stated his belief that he had been delegated the authority to write off extended education receivables of less than \$1,000 and that amounts over this would be submitted to the director of accounting services. The director of accounting services stated that due to the conversion to the Revenue Management Program, the campus believed that write-offs no longer needed to be sent to the SCO for discharge of accountability.

Inadequate control over accounts receivable write-offs increases the risk of improper write-offs and unauthorized activities.

Recommendation 4

We recommend that the campus:

- a. Review its write-off policies and document the delegation of authority to all personnel who will be authorized to approve write-offs. This documentation should include the dollar amount that each position is authorized to write off.
- b. Consult with the chancellor's office for guidance on the write-off of uncollectible accounts greater than \$1,000 that are related either to California State University (CSU) fund categories or to operations within the CSU trust categories.

Campus Response

We concur.

- a. The write-off policies will be reviewed and the delegation of authority to all personnel who will be authorized to approve write-offs will be documented and will include the dollar amount that each position is authorized to write off.
- b. The write-off of uncollectible accounts greater than \$1,000 that are related either to CSU fund categories or to operations within the CSU trust categories will be developed in consultation with the chancellor's office information.

Expected completion date: November 2009

CASH DISBURSEMENTS

Individuals responsible for processing payments had access to the vendor master file.

We found that the accounts payable (AP) supervisor and one AP technician had access to update or make changes to the vendor master file. In the AP supervisor's absence, certain other AP technicians were also delegated access to the vendor master file to perform these transactions.

SAM §8080.1 states that each state agency will establish and maintain an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, no one person shall perform more than 1 of 11 types of duties, which include maintaining records file and operating mechanized equipment, initiating disbursement documents, approving disbursement documents, and inputting disbursement information.

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

The director of accounting services stated that access to the vendor master file had been divided between procurement and AP because AP needed to be able to add remittance information included on the invoice, and that it also needed to monitor and maintain taxable withholding/reporting information.

Failure to maintain adequate control over the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 5

We recommend that the campus restrict vendor add/update access for persons responsible for processing payments, or implement compensating controls.

Campus Response

We concur. The vendor add/update access for persons responsible for processing payments will be removed and restricted to those individuals not responsible for processing payments, or compensating controls will be implemented.

Expected completion date: November 2009

PAYROLL

Duties and responsibilities related to payroll functions were not properly segregated.

We found that:

- ▶ All payroll personnel had access to, and updated employee personnel records in, PS SF and payroll records in the Personnel Information Management System (PIMS).
- ▶ In the process of clearing salary advances, the payroll department requested and received the SCO warrants from the main cashier. The payroll department then attached the appropriate salary advance paperwork to the warrants and returned them to the main cashier to be re-deposited.
- ▶ In the process of clearing employee receivables, personal check payments made payable to the campus were first delivered to the payroll department, which also initiated and handled the collection of these receivables. The payments were deposited by the main cashier.

CSU directive HR/EHDB 2007-01, *KPMG Recommendation Concerning Payroll-Related Segregation of Duties*, dated May 7, 2007, states that payroll employees should not be the same individuals who modify employee master files.

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: receiving and depositing remittances, inputting receipts information, and reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions.

SAM §8580.1 states that persons designated by agencies either to receive salary warrants from SCO, to distribute salary warrants to employees, or to handle salary warrants for any other purpose will not be authorized to process or sign any of a number of personnel documents that are part of the purview of the payroll department.

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

The payroll manager stated that although payroll technicians have the ability to update records in both PS and PIMS, each of the technicians only regularly enters data in one system. She also stated that after an entry is made in PS, she requires that the information is given to another person to key into PIMS using a personnel/payroll transaction form. The payroll manager further stated that salary advance SCO warrants were only released to a payroll manager in order to create the backup paperwork necessary for processing because the confidential information on the paystub should not be accessed by cashiers or accounting services. She stated that the reason the employee receivable

checks were received in payroll was because payroll ensured that the proper documentation accompanied the checks so that they would be posted appropriately to the employees' accounts.

Inadequate segregation of duties between the processing of personnel and payroll transactions and the handling of payroll warrants increases the risk of irregularities.

Recommendation 6

We recommend that the campus remove update access from either PS SF or PIMS for the affected employees, or implement compensating controls.

Campus Response

We concur. Payroll will develop and implement compensating controls to ensure adequate segregation of duties between the processing of personnel and payroll transactions and the handling of payroll warrants.

Expected completion date: November 2009

RECONCILIATIONS

Certain reconciliations were not always performed in a timely manner.

We found that:

- ▶ Uncleared collections reconciliations for the months of November 2008, December 2008, and January 2009 were prepared 15, 28, and 3 days late, respectively. In addition, when reviewing these reconciliations, we found a number of items that remained uncleared throughout the three-month period.
- ▶ Student receivable reconciliations for the months of November 2008, December 2008, and January 2009 were prepared 15, 27, and 2 days late, respectively. In addition, when reviewing these reconciliations, we found a number of items that remained uncleared throughout the three-month period. These items included approximately \$66,000 in the fee revenue account.
- ▶ Bank reconciliations for the months of October, November, and December 2008 were prepared 85, 72, and 49 days late, respectively.
- ▶ Quarterly property reconciliations for September and December 2008 were performed in February 2009.
- ▶ The campus did not prepare a reconciliation of travel advances.

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications. It further states that all reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

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

SAM §8060 states that all bank accounts will be reconciled promptly at the end of each month.

SAM §7924 states that 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.

SAM §8193 requires revolving fund resources to be reconciled with the amount of cash advanced.

The associate vice president of administration and finance stated that due to the fall 2008 conversion to PS SF, the campus has still been developing queries and processes to perform some of the necessary reconciliations. She also stated that during this period, the accounting department was short of staff and therefore had to concentrate on finishing the campus' financial statements before they could refocus on the reconciliations.

Failure to prepare reconciliations and resolve unidentified reconciling differences in a timely manner limits the campus' ability to detect errors and irregularities and may delay proper revenue recognition.

Recommendation 7

We recommend that the campus implement procedures to:

- a. Ensure that reconciliations are performed in a timely manner and that reconciling differences are promptly resolved.
- b. Reconcile travel advances to the general ledger.

Campus Response

We concur.

- a. Accounting has implemented procedures to ensure that reconciliations are performed in a timely manner and that reconciling differences are promptly resolved.
- b. The travel advances are being reconciled to the general ledger monthly.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Mildred Garcia	President
Cristina Ambriz	General Accountant
Christina Baltazar	Accounting Technician, College of Extended and International Education Operations
Shujuan Chen	Accounts Receivable Coordinator
Clyde Fugami	Pharmacist
Dovie Harness	Cashiering Coordinator
Janie Macharg	Director, Student Health and Psychological Services
Penny Mackaig	Accounting Business Analyst
Ayesha Marcel	Administrative Operations Coordinator
George McCalmon	Operation System Analyst
Timothy Mozia	Director of Operations, College of Extended and International Education Operations
Cecilia Patz	Director, Accounting Services
Michelle Prescott	Manager of Student Financial Services
Francisco Quinonez	Assistant Director, Procurement, Contracts, Logistical, Facilities Leasing, and Support Services
Lorena Raymundo-Yusuf	Manager of Accounting Services
Mary Ann Rodriguez	Vice President, Administration and Finance
Kaveh Razaghi	Director, University Housing Services
Clifford Ruddick	Accounts Payable Supervisor
Debbie Sutton	Administrative Support Coordinator
Fabiola Tene	Financial Reporting Accountant
Elcee Teng	Payroll Manager
Janet Vanniroth	General Accountant
Karen Wall	Associate Vice President, Administration and Finance
Emmit Williams	Director, Procurement, Contracts, Logistical, Facilities Leasing, and Support Services



California State University
Dominguez Hills

Office of the Vice President for Administration and Finance

1000 E. Victoria Street – WH B470 Carson, CA 90747 (310) 243-3750 FAX (310) 234-3869

September 28, 2009

RECEIVED
UNIVERSITY AUDITOR

SEP 28 2009

THE CALIFORNIA STATE
UNIVERSITY

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

Dear Mr. Mandel:

Enclosed, please find California State University, Dominguez Hills' responses to the FISMA Audit 09-07, dated August 24, 2009. The campus is committed to addressing and resolving the issues identified in the audit report.

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

Sincerely,

M. Rodriguez

Mary Ann Rodriguez
Vice President, Administration and Finance

c: Mildred García, President
Karen Wall, Associate Vice President, Administration and Finance

FISMA

**CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS**

Audit Report 09-07

CASH RECEIPTS

MAIN AND SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Remove the cashiering coordinator's access so that she can no longer reverse charges and process student refunds or generate journals and run student refund processes in PS SF, or implement compensating controls.
- b. Use system queries and reports to monitor individually processed student refunds and reversals.
- c. Reinforce established procedures to ensure that the main cashier's deposits to Wells Fargo Bank are made in a timely manner.
- d. Implement appropriate segregation of duties in UH cashiering. This could include assigning a second employee to log payments and to review the deposit to the main cashier.
- e. Implement appropriate segregation of duties in CEIE cashiering. This could include ensuring that the employee who performs collection activities no longer has the access necessary to receive and post student payments.
- f. Implement appropriate segregation of duties in SHC cashiering. This could include assigning accounts receivable duties to an employee who does not have cashiering duties.

Campus Response

We concur.

- a. Access to process student refunds, generate journals, and to run student refund processes in PS SF has been removed from the cashier coordinator's access. The cashier manager will develop and implement compensating controls to allow the cashier coordinator to reverse charges only when necessary.
Expected completion date: October 2009
- b. System queries and reports are being used to monitor individually processed student refunds and reversals.

- c. Established procedures to ensure that the main cashier's deposits to Wells Fargo Bank are made in a timely manner have been reinforced with the cashier manager and staff.
- d. University Housing has implemented appropriate segregation of duties in UH cashiering by assigning a second employee to log payments and to review the deposit to the main cashier, and a third employee is taking the payments down to the Cashier's Office.
- e. CEE has implemented appropriate compensation controls to ensure segregation of duties in CEE cashiering, with receivables and final write off approvals processed by separate employees.
- f. SHC has implemented appropriate segregation of duties in SHC cashiering by assigning accounts receivable duties to an employee who does not have cashiering duties.

CHECK ENDORSEMENT

Recommendation 2

We recommend that the campus provide endorsement stamps to the accounting and payroll departments for same-day endorsement of checks or have these departments forward the checks to the main cashier on the same day that they are received.

Campus Response

We concur.

The accounting and payroll departments will forward the checks to the main cashier on the same day, but if they need an additional day to research where to deposit the funds they will endorse the checks.

Expected completion date: October 2009

ACCOUNTS RECEIVABLE

COLLECTIONS

Recommendation 3

We recommend that the campus:

- a. Revise policies for student and CEIE receivables to ensure that initial past-due notices are sent 30 days after the due date of charges and that collection efforts are promptly and appropriately pursued.
- b. Ensure that initial notification letters are sent in a timely manner for outstanding employee receivables and that collection efforts are promptly and appropriately pursued.

Campus Response

We concur.

- a. Revised policies for student and CEIE receivables will be developed to ensure that initial past-due notices are sent 30 days after the due date of charges and collection efforts are promptly and appropriately pursued.
- b. Procedures will be developed to ensure that initial notification letters are sent in a timely manner for outstanding employee receivables and that collection efforts are promptly and appropriately pursued.

Expected completion date: December 2009

WRITE-OFFS

Recommendation 4

We recommend that the campus:

- a. Review its write-off policies and document the delegation of authority to all personnel who will be authorized to approve write-offs. This documentation should include the dollar amount that each position is authorized to write off.
- b. Consult with the chancellor's office for guidance on the write-off of uncollectible accounts greater than \$1,000 that are related either to CSU fund categories or to operations within the CSU trust categories.

Campus Response

We concur.

- a. The write-off policies will be reviewed and the delegation of authority to all personnel who will be authorized to approve write-offs will be documented and will include the dollar amount that each position is authorized to write off.
- b. The write-off of uncollectible accounts greater than \$1,000 that are related either to CSU fund categories or to operations within the CSU trust categories will be developed in consultation with the chancellor's office information.

Expected completion date: November 2009

CASH DISBURSEMENTS

Recommendation 5

We recommend that the campus restrict vendor add/update access for persons responsible for processing payments or implement compensating controls.

Campus Response

We concur.

The vendor add/update access for persons responsible for processing payments will be removed and restricted to those individuals not responsible for processing payments, or compensating controls will be implemented.

Expected completion date: November 2009

PAYROLL

Recommendation 6

We recommend that the campus remove update access from either PS SF or PIMS for the affected employees or that it implement compensating controls.

Campus Response

We concur.

Payroll will develop and implement compensating controls to ensure adequate segregation of duties between the processing of personnel and payroll transactions, and the handling of payroll warrants.

Expected completion date: November 2009

RECONCILIATIONS

Recommendation 7

We recommend that the campus implement procedures to:

- a. Ensure that reconciliations are performed in a timely manner and that reconciling differences are promptly resolved.
- b. Reconcile travel advances to the general ledger.

Campus Response

We concur.

- a. Accounting has implemented procedures to ensure that reconciliations are performed in a timely manner and that reconciling differences are promptly resolved.
- b. The travel advances are being reconciled to the general ledger monthly.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 9, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

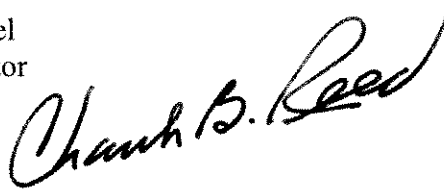
DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor



FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-07 on *FISMA*,
California State University, Dominguez Hills

LONG BEACH

LOS ANGELES

In response to your memorandum of November 9, 2009, I accept the response as submitted with the draft final report on *FISMA*, California State University, Dominguez Hills.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS