

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
LONG BEACH**

**Audit Report 09-12  
March 30, 2010**

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## **ABBREVIATIONS**

CSU	California State University
CSULB	California State University, Long Beach
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
SAM	State Administrative Manual

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## 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, Long Beach (CSULB) 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 CSULB campus from November 30, 2009, through January 20, 2010, and made a study and evaluation of the accounting and administrative control in effect as of January 20, 2010. This report represents our biennial review.

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

In our opinion, CSULB's accounting and administrative control in effect as of January 20, 2010, taken as a whole, was sufficient to meet the objectives stated above.

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

would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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

### **CASH RECEIPTS [6]**

The campus did not always count change and purchase funds at the prescribed frequency.

### **PAYROLL [6]**

Duties and responsibilities related to payroll accounts receivable and salary advances were not properly segregated.

### **PROPERTY [7]**

Duties and responsibilities related to verification of fixed assets were not properly segregated.

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# 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 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 2008/09 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 2009 to September 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.
- ▶ Use of petty cash funds, periodic cash counts, and the 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, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, physical inventories, and authorization of property disposals.

We have not performed any auditing procedures beyond January 20, 2010. 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.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

The campus did not always count change and purchase funds at the prescribed frequency.

Our review of 15 change and purchase funds maintained by the campus disclosed that six funds were not counted quarterly, as prescribed by campus policy. Five of the six funds were counted on a semi-annual basis, while one was counted annually.

The California State University Long Beach *Policy for Petty Cash/Change Fund*, dated July 1, 2009, provides specific guidance and schedules regarding the counting of petty cash and change funds based on the size of the fund.

The manager of student accounting services and cashiering stated that the process of creating a new policy for this area caused confusion in regards to when certain funds needed to be counted.

Inadequate control over change and purchase funds increases the risk of loss from inappropriate acts.

#### **Recommendation 1**

We recommend that the campus count change and purchase funds at prescribed frequencies.

#### **Campus Response**

We concur. The campus will create a scheduling system and routine to ensure that each petty cash and change fund is counted in accordance to the prescribed frequency for each particular fund. Estimated date of completion is May 31, 2010.

### **PAYROLL**

Duties and responsibilities related to employee accounts receivable and salary advances were not properly segregated.

We found that employee check payments for outstanding employee accounts receivable and salary advances were delivered to the payroll department, which also initiated and handled collection of these items.

State Administrative Manual (SAM) §8080, §8080.1, and §8080.2 state 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 include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

The director of the human resources service group stated that the lack of a proper segregation of duties in regards to employee receivables resulted from not fully implementing controls over the receipt and processing of incoming payments.

Inadequate segregation of duties increases the risk of misstated assets and loss from inappropriate acts, reduces the likelihood of collection, and potentially negatively impacts cash flow.

### **Recommendation 2**

We recommend that the campus implement appropriate segregation of duties relating to the processing and repayment of employee accounts receivable and salary advances.

### **Campus Response**

We concur. The campus has modified the business process to ensure appropriate segregation of duties. Payroll services' front counter staff, rather than the payroll technicians, will now receive all remittances, log these remittances, and forward to the cashier's office for deposit. This log will document receipt of payment, amount of payment, and actual check number. Corrective action on this issue is complete.

## **PROPERTY**

Duties and responsibilities related to the verification of campus property were not properly segregated.

We found that employees who were separate from the asset custodians did not verify fixed assets to campus inventory reports.

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.

SAM §8652 requires that every three years, each campus must perform a physical count of all property and reconcile that count with accounting records. Also, inventories will not be exclusively controlled by the custodian of the property records.

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.

The associate vice president of financial management stated that the campus' lack of proper segregation of duties is due to the decentralization of its inventory processes and procedures.

Insufficient control over property increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

### **Recommendation 3**

We recommend that the campus ensure that personnel other than the asset custodian perform the physical inventory verification.

### **Campus Response**

We concur. The campus is currently revising the property procedures and will include a section regarding physical inventory including a requirement for physical assets to be verified by other than the custodian of the asset every three years. Estimated date of completion is July 31, 2010.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
F. King Alexander	President
Scott Apel	Assistant Vice President, Human Resources Management
Nancy Eckhous	Bursar, Student Accounting Services and Cashiering
Robert Escalante	Property Manager, Materials Management
John Fugatt	Manager, Student Accounting Services and Cashiering
Mike Jones	Chief Financial Officer, College of Continuing and Professional Education
Sandy Miyake	Payroll Director, Human Resources Service Group
Carol Monson	Manager, Accounts Payable
Natalie Nguyen	Fixed Asset Coordinator, Materials Management
Randy Nielson	Supervisor, Student Accounting Services and Cashiering
Mary Ann Odell	Procurement Card Coordinator, Purchasing
Beth Ryan	Director, Human Resources Service Group
Mary Ann Stephens	Vice President, Administration and Finance
Sharon Taylor	Associate Vice President, Financial Management
Michelle Totten	Process Improvement Specialist, Information Technology Services
Christine Welch	University Controller, Financial Management Information Systems



CALIFORNIA STATE UNIVERSITY, LONG BEACH

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DIVISION OF ADMINISTRATION AND FINANCE

April 19, 2010

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

Re: Response to FISMA #09-12

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus is committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Stephens".

Mary Stephens  
Vice President for Administration and Finance

Enclosure

IA-0251

c: F. King Alexander, President  
Scott Apel, Associate Vice President, Human Resources Management  
Ted Kadowaki, Associate Vice President, Budget and University Services  
Sharon Taylor, Associate Vice President, Financial Management  
Aysu Spruill, Director, Internal Auditing Services

FISMA

CALIFORNIA STATE UNIVERSITY,  
LONG BEACH

Audit Report 09-12

**CASH RECEIPTS**

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THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

May 5, 2010

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FROM: Charles B. Reed  
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed".

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-12 on *FISMA*,  
California State University, Long Beach

LONG BEACH

LOS ANGELES

In response to your memorandum of May 5, 2010, I accept the response as submitted with the draft final report on *Information Security*, California State University, Long Beach.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS