FISMA

CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

Report Number 98-11
March 19, 1999

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APPENDICES

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ABBREVIATIONS

AS    Associated Students
CSU   California State University
FAD   Financial Audits Division
FISMA Financial Integrity and State Manager’s Accountability Act
OSAE  Office of State Audits and Evaluation
SAM   State Administrative Manual
SUAM  State University Administrative Manual
USU   University Student Union
INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems that assure that:

- cash receipts are processed in accordance with laws, regulations and management policies;
- receivables are promptly recognized and balances are periodically evaluated;
- purchases are made in accordance with laws, regulations and management policies;
- revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies;
- cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists;
- payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted;
- purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records;
- physical computer controls are in place and functioning;
- investments are adequately controlled and securities are safeguarded; and
- trust funds are established in accordance with SUAM guidelines.
SCOPE AND METHODOLOGY

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 1997-98 fiscal year 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 to December 1998. 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 over the establishment of billing for and payment of receivables;
- approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;
- limitations on the size and types of revolving fund disbursements;
- use of petty cash funds, periodic cash counts, and bank reconciliations;
- 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 automated accounting systems and proper documentation of the systems;
- procedures for initiating, evaluating, and accounting for investments; and
- establishment of trust funds, separate accounting, adequate agreements, and annual budget.

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.
BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. The Office of the University Auditor of the CSU is currently responsible for conducting such audits within the CSU. This report represents our biennial review.

OPINION

We visited the California State Polytechnic University, Pomona from November 2, 1998 through January 8, 1999 and audited the internal control structure in effect at that time.

In accordance with the Government Code Section 13402, et seq., state agency heads are responsible for establishing and maintaining systems of internal accounting control. The broad objectives of control systems for state agencies are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded from unauthorized use or disposition; and

- transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the State Administrative Manual.

Due to inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk, inasmuch as procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate. (See Appendix B, *Statement of Internal Controls*.)

Our audit disclosed conditions which, in our opinion, if not corrected would result in significant errors and irregularities. Specifically, the campus does not maintain adequate internal control over cash receipts, accounts receivable, and investment earnings. Other areas requiring improvement are found in the Executive Summary.
EXECUTIVE SUMMARY
The purpose of this section is to provide management with an overview of conditions requiring 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]

PARKING OPERATIONS [6]
The campus had not notified all appropriate State agencies regarding the theft of parking revenue funds. In addition, cash accounting controls within parking operations were inadequate. Instituting additional cash collection and accounting controls within parking operations and timely reporting of thefts may prevent or limit future cash losses.

ACCOUNTS RECEIVABLE [8]

HOUSING [8]
Housing receivables for non-Cal Poly students were not being collected in a timely manner. Improving adherence to student housing license agreements, including timely billing and collection procedures, will reduce the risk of unreimbursed costs and decrease the commitment of university resources in collection activities.

AUXILIARY ORGANIZATIONS [9]
Outstanding receivables from the Cal Poly Pomona Foundation, Associated Students, and University Student Union were not collected timely. Pursuing all options to clear outstanding accounts in a timely manner increases reimbursement activity, reduces accounting and administrative overhead costs, and increases cash flow.

PURCHASING [11]
The campus purchasing office did not have signature records on file identifying those individuals authorized to sign purchase requisitions. The use of complete signature authorization files reduces the risk of unauthorized purchases.
INVESTMENTS [11]

Investment earnings totaling $42,987 were not allocated back to the respective trust accounts. Distributing investment earnings back to trust accounts in proportion to the amount invested reduces the potential for disagreements related to funds available to the trust account holders.

TRUST AGREEMENT DOCUMENTATION [12]

Documentation supporting trust agreements was inadequate. Properly documenting trust agreements strengthens internal controls, improves administration of the trust, and reduces the risk of inappropriate expenditures.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

PARKING OPERATIONS

The campus had not notified all appropriate state agencies regarding the theft of parking revenue funds. In addition, cash accounting controls within parking operations were inadequate.

During the period February 22, 1996 to February 18, 1998, the campus incurred a financial loss totaling $28,935 resulting from the theft of cash and checks within parking operations. Campus officials estimate that $11,695 in cash and $17,240 in checks was taken. The theft was reported to the Office of the Chancellor, but was not reported to the Department of Finance and the Bureau of State Audits.

We reviewed internal controls within parking operations and noted the following:

♦ Inadequate segregation of duties—parking operations staff were assigned duties of cash collection, reconciliation and deposit;

♦ Inadequate collection accounting controls—the method of payment (i.e., cash or check,) was not documented, making it difficult to reconstruct lost/problem deposits; and

♦ Inadequate communication of problem bank deposits between campus financial management and parking operations management.

SAM §20060 states that an agency will notify the Department of Finance, Office of State Audits and Evaluation (OSAE); and the Bureau of State Audits, of all cases of actual or suspected fraud, defalcation or other irregularities it has become aware of either internally or by referral.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include a plan of organization that provides segregation of duties appropriate for proper safeguarding of agency assets.

SUAM §3821 states that the Chief Business Officer of the campus is responsible for the collection of all funds collected for, or on behalf of, the university, the associated student body, and the student center. Cash collection centers may be located in campus units other than the business office, such as the library, if desired; however, it remains the responsibility of the Chief Business Officer to monitor the collection operation in these units and assure that State and Chancellor’s Office requirements for internal control, timely collection and deposit, etc., are adhered to.
The vice president for administrative affairs stated that, as soon as the theft was known, written notification was forwarded to the Office of the Chancellor. However, no state agencies were notified, because it was her understanding that additional notifications would take place via the Office of the Chancellor.

The manager of student accounting and cashiers stated that in addition to the cash theft, falsified bank deposit slips were submitted to the cashiering office and armored courier transfer signatures were forged. The campus public safety investigator stated that an investigation is underway by the campus department of public safety.

Untimely reporting of thefts and irregularities, and inadequate cash collection and accounting controls may result in future cash losses.

**Recommendation 1**

We recommend that the campus:

a. notify the appropriate state agencies of the theft of state funds;

b. review parking operation staffing responsibilities for appropriate segregation of duties and establish additional controls where incompatible duties are found;

c. establish procedures to document the method of payment of parking operation collections; and
d. establish procedures for improving communication between departments relative to bank deposits.

**Campus Response**

We concur with the recommendation.

a. We have sent letters of notification to the Bureau of State Audits and the Department of Finance.
b. Based on internal review of parking operation controls, the following procedures were implemented on August 10, 1998:
   1) the courier custody receipt is signed by two parking operation staff members to confirm that: the messenger is on the authorized list; the messenger's signature matches the specimen on file; the amount of deposit, bag serial number, and total number of bags agree with what is recorded in the custody receipt; and messenger clearly prints name on custody receipt.
   2) Copies of the deposit slip and custody receipt are sent to the University Cashier no later than the following business day.
   3) sealed deposit bags are kept in vault while waiting for courier pick-up.
   4) all payments received are deposited the following business day.
c. After a comprehensive evaluation of parking fine payment methods and flow of funds, the University implemented an enhanced procedure on March 15, 1999. Effective that date, all
parking fine collections and deposits are being made directly at the University Cashier. Funds collected from the Information Booth and parking meters are also delivered directly to the University Cashier for counting and deposit.

d. With the procedure implemented on March 15, 1999, the University Cashier is now the central point for bank deposits. Collections from the Information Booth and parking meters are counted at the University Cashier with the officer or authorized staff member from Parking present. Bank deposit issues will now be handled by the University Cashier only.

The recommended actions were completed on March 15, 1999.

ACCOUNTS RECEIVABLE

HOUSING

Housing receivables for non-Cal Poly students were not being collected in a timely manner.

From our review of twenty outstanding student receivable accounts, we found three instances where non-Cal Poly students had accumulated room and board debts totaling $7168, $4672, and $1947 respectively. The obligations were outstanding for periods ranging from two to four years, yet classified as current receivables because payment activity, though minimal, had occurred on the accounts within the past two years.

Each housing resident is required to sign a Student Housing License Agreement. This agreement states that the university may revoke the agreement upon the following conditions: (1) in the event of misconduct, (2) failure of licensee to maintain status as a student at the university, (3) licensee’s breach of any term or condition of the license agreement, including failure to pay required fees, and (4) administrative necessity of the university.

The director of student housing stated that under a special program, students from nearby Mount San Antonio College and DeVry Technical Institute were permitted to stay on campus in university provided housing. The director of student housing further stated that the program is being phased out and that there were six non-students still residing in campus housing.

Failure to take advantage of student housing license agreements, including timely billing and collection procedures, increases the university’s risk of unreimbursed costs and commitment of university resources in collection actions.
Recommendation 2

We recommend that the campus take the necessary actions to collect outstanding housing receivables from non-Cal Poly students in a shorter time frame.

Campus Response

We concur with the recommendation.

Aggressive collection actions continue to be taken on receivables from non-Cal Poly students. Statements are sent twice a quarter to the former residents. Every year, liens are placed on state income tax refunds. At year end, reserves for uncollectible amounts are established for those accounts that show no activity for the last 24 months.

We expect to complete actions related to this recommendation by June 30, 1999.

AUXILIARY ORGANIZATIONS

Outstanding receivables from the Cal Poly Pomona Foundation, Associated Students and University Student Union were not being collected timely.

The Cal Poly Pomona Foundation owed the campus $53,211. We noted that many of the amounts were outstanding for over two years and were disputed by the foundation.

The amounts owed by the Cal Poly Pomona Foundation by year were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>$2,204</td>
</tr>
<tr>
<td>1994-95</td>
<td>7,360</td>
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<tr>
<td>1995-96</td>
<td>16,853</td>
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<td>26,794</td>
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<tr>
<td>Total</td>
<td>$53,211</td>
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</tbody>
</table>

During the course of our review, we learned that the university and foundation had reached a tentative agreement to accept 50% of the outstanding amount from the foundation and write off the remaining 50%.

Additionally, the University Student Union (USU) and the Associated Students (AS) had outstanding amounts owed the campus totaling $11,856.
The amounts owed by the USU and AS by year were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>USU</th>
<th>AS</th>
</tr>
</thead>
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<tr>
<td>1993-94</td>
<td>0</td>
<td>1,229</td>
</tr>
<tr>
<td>1994-95</td>
<td>1,222</td>
<td>2,363</td>
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<tr>
<td>1995-96</td>
<td>0</td>
<td>480</td>
</tr>
<tr>
<td>1996-97</td>
<td>670</td>
<td>5,892</td>
</tr>
<tr>
<td>Total</td>
<td>$1,892</td>
<td>$9,964</td>
</tr>
</tbody>
</table>

SAM §8776.6 provides specific criteria for collecting outstanding amounts owed the university including the sending of three follow-up letters at thirty-day intervals after the initial billing and the use of tax offset.

The executive director of finance and administrative services stated that the university and foundation agreed to the fifty-fifty debt reduction and debt payment because supporting documentation was not available for some transactions. In other instances, the amounts owed were due from grants and contracts that had closed.

Failure to collect outstanding receivables in a timely manner increases the risk of not being fully reimbursed, increases accounting and administrative overhead costs and decreases cash flow.

**Subsequent to our fieldwork, the campus provided documentation indicating that the $59,715 currently owing from the Foundation had been liquidated for $44,654. The remaining $15,061 was written off by the campus. This action was in lieu of the debt reduction noted above.**

**Recommendation 3**

We recommend that the campus ensure that auxiliary receivables are collected timely.

**Campus Response**

We concur with the recommendation.

As noted in the report, the University and the Foundation reached agreement to liquidate all outstanding amounts dated June 30, 1997 and earlier. As of April 12, 1999 there is only $5,329 outstanding and awaiting final processing. We expect this balance to be cleared by May 31, 1999.

The other auxiliaries, ASI and the University Union, owe $15,338 to the University for invoices dated June 30, 1997 and earlier. ASI and UU will pay this balance on or before May 31, 1999.

We expect to complete actions related to this recommendation by May 31, 1999.
PURCHASING

The campus purchasing office did not have signature records on file identifying those individuals authorized to sign purchase requisitions.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control includes a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, and expenditures.

The director of procurement and support services stated that the campus purchasing operation was to have been automated, leading to on-line authorization of purchase requisitions. Such automation, however, had not yet taken place. Following the conclusion of audit fieldwork, we were advised that letters were sent to campus departments on February 1, 1999 requesting that signature authorizations be provided to the purchasing office.

Not maintaining signature authorization records increases the risk of unauthorized purchases.

Recommendation 4

We recommend that the campus ensure that signature authorization records are maintained in the purchasing office for all employees authorized to sign purchase requisitions.

Campus Response

We concur with the recommendation.

Requests for updated signature authorizations were sent to campus departments. As of March 1, 1999, Procurement has on file and is maintaining the departmental authorizations to approve purchase requisitions.

The recommended action was completed on March 1, 1999.

INVESTMENTS

Investment earnings totaling $42,987 were not allocated back to the respective trust accounts.

Beginning in September 1997 and continuing through November 1998, the campus did not allocate investment earnings back to non-enterprise trust accounts. The funds were held in the general ledger investment pool account. Prior to September 1997, all investment earnings were distributed to the trust accounts.
SUAM §3824 states that the campus President may define the rules for distribution of interest income, except where interest income is defined in instruments such as a bond resolution, trust project agreement, and federal funding contract.

The executive director of finance and administrative services stated that it is campus practice to distribute trust investment earnings back to the respective trusts in proportion to the amount invested.

The campus controller stated that investment earnings had previously been calculated and posted manually, which was labor intensive and costly. He further stated that automated software applications were being reviewed for processing and posting of earnings to the respective trust accounts.

By not distributing investment earnings back to the appropriate trust accounts, the trust account managers are not able to fully utilize their funds.

**Recommendation 5**

We recommend that the campus begin the timely distribution of:

a. investment interest earnings presently held in the campus investment pool account; and,

b. all future earnings to the respective trust accounts in proportion to the amount of the investment.

**Campus Response**

a. Investment interest earnings for September 1997 through January 1999 have been posted to the individual trust accounts.

b. The University has strengthened its method of allocating earnings based on the amount of investment. We will be posting earnings to individual accounts every month to keep balances current.

**TRUST AGREEMENT DOCUMENTATION**

Documentation supporting trust agreements was inadequate.

The campus was unable to provide trust agreements for 13 of 102 established trust accounts. In addition, three trust agreements needed updating to include the disposition of unexpended funds.

SAM §19440.1 states that each trust account established shall be supported by documentation as to the type of trust, donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of monies for administrative or overhead costs. This documentation will be retained until the trust is dissolved. The
executive director of finance and administrative services stated that he was aware that some trust accounts were not supported by trust agreements. He further stated that some trust accounts were established without first having written agreements in place.

The campus cannot effectively execute its fiduciary responsibilities without first completing trust agreements for all trust accounts.

**Recommendation 6**

We recommend that the campus ensure that complete trust agreements are maintained for all trust accounts.

**Campus Response**

We concur with the recommendation.

All trust agreements for active accounts are now on file. Since the audit review, inactive accounts were closed by those authorized to do so.

The recommended action was completed on April 20, 1999.
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob H. Suzuki</td>
<td>President</td>
</tr>
<tr>
<td>Anita Aguirre</td>
<td>Inventory Officer</td>
</tr>
<tr>
<td>Cathy Baker</td>
<td>Coordinator Administrative Services, Student Health Center</td>
</tr>
<tr>
<td>Richard Beck</td>
<td>Pharmacist, Student Health Center</td>
</tr>
<tr>
<td>William Brooks</td>
<td>Buyer</td>
</tr>
<tr>
<td>Fyle Cabagnot</td>
<td>Controller</td>
</tr>
<tr>
<td>Naomi Caldwell</td>
<td>Payroll Services Manager</td>
</tr>
<tr>
<td>Alice Cuenco</td>
<td>Manager Student Accounting and Cashiers</td>
</tr>
<tr>
<td>Pat Farris</td>
<td>Vice President for Administration</td>
</tr>
<tr>
<td>Gary Fredericksen</td>
<td>Director, Student Health Center</td>
</tr>
<tr>
<td>Doug Freer</td>
<td>Interim Director, University Housing Services</td>
</tr>
<tr>
<td>Don Green</td>
<td>Director, Procurement and Support Services</td>
</tr>
<tr>
<td>Sharon Hinrichsen</td>
<td>Administrative Operations Analyst</td>
</tr>
<tr>
<td>Charles Holt</td>
<td>Manager, Parking and Administrative Services</td>
</tr>
<tr>
<td>Joan Horn</td>
<td>Procurement Expeditor</td>
</tr>
<tr>
<td>Leslie Jones</td>
<td>Library Assistant</td>
</tr>
<tr>
<td>Darwin Labordo</td>
<td>Executive Director, Finance and Administrative Services</td>
</tr>
<tr>
<td>Lou Mandel</td>
<td>Records Administrator, Department of Public Safety</td>
</tr>
<tr>
<td>Shelly Montoya</td>
<td>Accounts Payable Coordinator</td>
</tr>
<tr>
<td>Melanie Saracco</td>
<td>Interim Assoc. Dir. Office of Financial Aid</td>
</tr>
<tr>
<td>Debbie Schneck</td>
<td>Buyer</td>
</tr>
<tr>
<td>Alice Slaughter</td>
<td>Investigator, Department of Public Safety</td>
</tr>
</tbody>
</table>
STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which 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 record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

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