June 16, 2016

Dr. Jane Close Conoley
California State University, Long Beach
1250 Bellflower Boulevard
Long Beach, CA 90840

Dear Dr. Conoley:

Subject: Audit Report 16-24, Academic Department Fiscal Review, California State University, Long Beach

We have completed an Academic Department Fiscal Review as part of our 2016 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

I have reviewed the management response, which includes the campus’ decision to accept the risk inherent in not providing a procurement-card-approver training, and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services’ website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer

cc: Timothy P. White, Chancellor
ACADEMIC DEPARTMENT FISCAL REVIEW

California State University,
Long Beach

College of Health and Human Services

Audit Report 16-24
May 13, 2016
EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of college and academic department administrative and financial controls; to evaluate adherence to the Integrated California State University Administrative Manual (ICSUAM) financial policies; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, college and academic department administrative and financial controls as of March 30, 2016, taken as a whole, were sufficient to meet the objectives of this audit.

In general, the audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on college administrative and financial controls. Overall, we found that college fiscal controls were sound. However, the review did identify opportunities for improvement in some areas, such as campus cash-handling procedures, campus procurement card procedures, and campus trust fund establishment.

Although the objectives of this audit were met, the issues identified indicate that some attention is needed to ensure that the college and academic department financial, operational, and administrative operations are in conformance with existing policies and to a level necessary to meet management expectations. Most issues listed below represent opportunities to improve the college and academic department administrative and financial controls at California State University, Long Beach (CSULB).

Specific observations, recommendations, and management responses are detailed in the remainder of this report.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CAMPUS CASH-HANDLING PROCEDURES

OBSERVATION

Campus cash-handling procedures were partially compliant with systemwide requirements.

We found that campus procedures allowed departments with safes or vaults to accumulate up to $1,000 in cash or $10,000 in cash and cash equivalents. In addition, the procedures allowed deposits to be made within ten working days. Systemwide requirements set forth in ICSUAM §3102.11 specifically require deposits to be made when collections exceed $500 in cash or cash equivalents, or at least weekly.

In addition, we reviewed cash-handling practices at the Osher LifeLong Learning Institute, Lifefit Center, and Speech and Hearing Clinic and found that at all three locations, campus and systemwide requirements for cash accumulation and timely deposits were not met. Specifically, at two locations where weekly deposits were made, we noted two deposits that included cash in excess of $1,000. At another location, we noted a deposit that was not made within ten working days.

Adherence to systemwide requirements relating to timely deposits and accumulation of funds decreases the campus’ exposure to loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

a. Update cash-handling procedures to align with systemwide requirements for cash accumulation and timely deposits.

b. Communicate the updated procedures to key college and departmental personnel involved in cash-handling processes.

MANAGEMENT RESPONSE

We concur. We will work with the chancellor’s office staff involved with ICSUAM to develop guidelines in a manner to allow campuses to have procedures that minimize the risk related to cash handling while at the same time providing an effective and efficient business process for departments. Any resulting policy changes will be communicated to all appropriate parties. The estimated date of completion is September 2016.

2. CASH AND CASH EQUIVALENT ACTIVITIES

OBSERVATION

Oversight of college cash-handling locations needed improvement.
We reviewed additional cash-handling practices at the three cash-handling locations noted above that deposited funds to accounts held by the campus and the CSULB Research Foundation (Foundation) and found that:

- Segregation of duties was inadequate at one location. We noted that there was one individual responsible for receiving funds and preparing and making deposits, without any secondary verification. In addition, pre-numbered receipts for in-person payments were not provided at this location; therefore, a reconciliation of receipts to the deposit was not performed.

- Funds were not always adequately safeguarded. We noted that one location did not have a safe or secure lockbox to safeguard cash and checks between deposits. In addition, for two locations, deposits were not transported by two employees, as required by systemwide and campus policy.

- Checks were not always endorsed on the day they were received at two locations.

- There was an unauthorized petty cash fund held at one location reviewed that had been inactive since 2013.

- The Satellite Cashiering Designation Form for one location was outdated and did not reflect the current employees authorized to handle cash.

Appropriate oversight and administration of cash-handling locations ensures that employees are properly trained and cognizant of related policies and procedures and decreases campus exposure to loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus provide enhanced oversight and training to all key personnel in the College of Health and Human Services (CHHS) involved in cash-handling activities, including appropriate employees at the three locations reviewed. This training should emphasize, but not be limited to, segregation of duties, safeguarding of funds, timely cash and check deposits, and other areas identified above.

MANAGEMENT RESPONSE

We concur. The campus will require at least one participant from each approved satellite cashiering location to attend an annual training program regarding the safeguarding of assets and proper handling of cash. The program will reinforce the guidelines and be used to communicate any policy changes. Management in individual departments with such sites will be reminded of the importance of ensuring employees in these areas follow the required guidelines for protection of the staff and the financial viability of the activity. The estimated date of completion is September 2016.
3. PROCUREMENT CARD ADMINISTRATION

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<th>OBSERVATION</th>
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<td>Campus procurement card policies and procedures did not address training for procurement-card-approving officials, and this training was not completed, as required by systemwide policy. Adequate training provides assurance that approvers understand their responsibilities and decreases the risk of unallowable or inappropriate purchases.</td>
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<th>RECOMMENDATION</th>
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<td>We recommend that the campus:</td>
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<tr>
<td>a. Update the campus procurement card manual to align with systemwide requirements for completion of procurement-card-approver training.</td>
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<td>b. Provide procurement card training to current approving officials in CHHS and obtain acknowledgement that they have completed the training.</td>
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<th>MANAGEMENT RESPONSE</th>
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<td>We do not concur. The campus has in place an approval process for financial transactions that relies on the campus’ Signature Authority guideline to determine the appropriate authority required to execute a specific transaction and our delegation of authority to determine the corresponding person in that role for a given department. Therefore, the campus is willing to accept the risk inherent in not providing a procurement-card-approver training. Nevertheless, the campus will work with the chancellor’s office staff involved with ICSUAM to reevaluate the systemwide requirement for the completion of a procurement-card-approver training.</td>
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4. TRUST FUND AGREEMENTS

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<td>Administration of trust fund agreements at the campus and the Foundation needed improvement. We found that:</td>
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<td>• Two of four campus fund agreements we reviewed had not been approved by appropriate personnel in campus financial management.</td>
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<td>• Both Foundation fund agreements we reviewed included an expired project period.</td>
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<td>Adequate administration of trust fund agreements decreases the risk of non-compliance with regulations and the risk that unallowable expenditures will be charged.</td>
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RECOMMENDATION

We recommend that the campus and the Foundation:

a. Review and update the fund agreements discussed above to ensure that they are current and properly approved.

b. Remind appropriate campus and Foundation personnel who review and maintain trust fund agreements to ensure that the agreements are properly approved and updated as needed.

MANAGEMENT RESPONSE

We concur. We have incorporated all required information into our chartfield request form that is used when establishing and updating funds. The financial management department is currently in the process of conducting a master review, for all three business units, to ensure we have a current form on file, with the appropriate signatory, for each trust fund established in our general ledger. The estimated date of completion is September 2016.
GENERAL INFORMATION

BACKGROUND

The California State University (CSU) is the nation’s largest four-year public university system, with 23 campuses and eight off-campus centers. Additionally, the CSU awards nearly half of the state’s baccalaureate degrees. Campuses are generally organized into academic colleges that house schools, departments, and programs specific to an area of study. Each college is headed by a dean, who reports to the provost in the division of academic affairs. Colleges and academic departments may be responsible for a wide variety of financial activities, including, but not limited to, managing budgets; generating revenues through workshops, clinics, and other services; processing requisitions; and initiating disbursements. College funds may be held either in campus or auxiliary organization accounts. Funds held in campus accounts must follow CSUAM requirements; funds in auxiliary organization accounts primarily follow requirements set forth in the Compilation of Policies and Procedures for CSU Auxiliary Organizations and Title 5 of the California Code of Regulations.

At CSULB, the dean of each college has overall responsibility for oversight of financial administration within the college, supported by the chair of each department. Additionally, each college has a professional financial administrator, the administrative services manager directly reporting to the dean, to ensure compliance with fiscal policies and procedures and to act as a liaison to the division of administration and finance. Centralized oversight over college activities is also provided by the provost and senior vice president of academic affairs.

The CHHS consists of eleven departments: criminology, criminal justice and emergency management; family and consumer sciences; health care administration; health science; kinesiology; nursing; physical therapy; public policy and administration; recreation and leisure studies; social work; and speech-language pathology. It houses a variety of programs and activities that integrate the community with the college, including the LifeFit Center; Osher Lifelong Learning Institute; Speech and Hearing Clinic; Physical Therapy Faculty Practice Center; Child and Family Center; and Center for Criminal Justice Training and Research.

SCOPE

We used financial and other factors to select one college and its various academic departments for review. Our review did not consider separate colleges of graduate studies, international education, or extended education. We used factors that we considered important to evaluate the risks in the overall college fiscal and administrative control environment to make our determination.

We visited the CSULB campus from February 29, 2016, through March 30, 2016. Our audit and evaluation included the audit tests we considered necessary in determining whether administrative and financial controls are in place and operative at the CHHS. The audit focused on procedures in effect from January 1, 2014, through March 30, 2016.
Specifically, we reviewed and tested:

- Processes to ensure that segregation of duties is adequate, accountability is maintained, and safeguarding is adequate for cash and cash equivalents.
- Processes to ensure that appropriate reviews and approvals are in place for contracting activities.
- Processes to ensure that expenditures are appropriate, properly authorized, and processed in accordance with CSU and campus policies.
- Identification, tracking, and tagging of sensitive equipment purchases.

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.

Our testing and methodology was designed to provide a review of key financial controls, which included detailed testing on a limited number of transactions. Our review did not examine all aspects of financial controls or encompass all areas within the college or academic departments where financial activities may have taken place.

CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

This review emphasized, but was not limited to, compliance with:

- ICSUAM §1101.00, Delegation of Authority to Obligate the University
- ICSUAM §13680.0, Placement and Control of Receipts for Campus Activities and Programs
- ICSUAM §3000, General Accounting
- ICSUAM §5000, Contracts and Procurement
- ICSUAM §8000, Information Security
- Compilation of Policies and Procedures for CSU Auxiliary Organizations
- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- CSULB Cash Handling Procedures
- CSULB Signature Authority Guideline
- CSULB Independent Contractor Procedures
- CSULB Direct Payment Procedures
- CSULB Procurement Card Manual
- CSULB Travel Procedures
- CSULB Hospitality Expenses Guideline
AUDIT TEAM

Senior Director:  Michelle Schlack
Senior Audit Manager:  Wendee Shinsato
Acting Audit Manager:  Cindy Merida
Senior Auditor:  Christina Chen
Internal Auditor:  Rick Pyles