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October 10, 2017

Dr. Mildred Garcia, President
California State University, Fullerton
800 North State College Boulevard
Fullerton, CA 92834-9480

Dear Dr. Garcia:

**Subject: Audit Report 17-24, Academic Department Fiscal Review,
California State University, Fullerton**

We have completed an audit of *Academic Department Fiscal Review* as part of our 2017 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 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

c: Timothy P. White, Chancellor

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ACADEMIC DEPARTMENT FISCAL REVIEW

**California State University,
Fullerton**

College of Health and Human Development

Audit Report 17-24
September 1, 2017

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of college and academic department operational, 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

We found the control environment for some of the areas reviewed to be in need of improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for the College of Health and Human Development as of July 21, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, the audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on school administrative and financial controls. Overall, we found that fiscal controls at the College of Health and Human Development were sound. However, the review did indicate that attention is required in some key areas related to the processing of campus and auxiliary cash receipts, such as designation of official cash-handling locations and change funds, timely deposits, safeguarding of funds, reconciliation of merchandise sales, and segregation of duties. Additional opportunities for improvement were identified in expenditure processing, tagging and tracking of sensitive equipment, and procurement card training for approving officials.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CASH AND CASH EQUIVALENTS

OBSERVATION

The college did not always comply with systemwide, campus, and auxiliary cash-handling policies and procedures.

We reviewed cash- and cash-equivalent-handling practices at five College of Health and Human Development (HHD) locations: the Center for Successful Aging, School of Nursing, Department of Kinesiology, Center for Sports Performance, and Kinesiology Performance and Movement programs. We found that:

- Two locations were not designated as official cash collection sites, as required by ICSUAM §3102.03, *Acceptance of Cash and Cash Equivalents*.
- At two locations, cash receipts were not always deposited at least weekly or whenever collections exceeded \$500, as required by ICSUAM §3102.11, *Deposits and Transfers to the Bank*, or whenever collections exceeded \$250, as required by *Auxiliary Services Corporation Cash and Check Handling Policy*. We noted one instance in which collections exceeded \$3,000 and were not deposited to the center's trust account until two weeks after receipt. Also, deposits were not transported in dual custody.

These same two locations used unauthorized change funds and used a portion of collected fees from recurring events as change fund for future events. As a result, all of the collected funds were not properly deposited and recorded.

In addition, neither location maintained a log of mailed checks, which should be used to perform a reconciliation of receipts to deposits.

- None of the locations had an endorsement stamp. As such, checks were not endorsed on the day they were received.
- At one location, segregation of duties was insufficient. We noted that one person was responsible for receiving and recording collected funds and preparing and making deposits, without secondary verification.
- At one location, reconciliation of cash receipts and inventory related to t-shirt sales operated under a previous program director was not documented. As such, we were not able to verify whether all of the t-shirts in inventory were sold or whether cash receipts were deposited.
- At one location, the safe combination had not been changed since the safe was purchased in 2012 and after the departure of an employee who had access to the safe.
- At one location, pre-numbered sequential receipts were not provided for in-person payments.

- At one location, an instructor collected museum entrance fees from students and paid these entrance fees using a personal credit card.

Official designation and appropriate oversight of cash-handling locations helps to ensure that internal controls are in place and employees are trained, and reduces the campus exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Determine whether the locations noted above should be designated as official cash-collection sites, and if so, obtain and document proper approvals.
- b. Determine whether the change funds noted above are appropriate. If so, obtain and document proper approvals. If not, deposit the funds to the appropriate department account.
- c. Communicate cash-handling policies to personnel involved in cash-handling activities to reiterate key procedures and ensure that personnel involved in cash-handling activities are trained and adequate oversight is provided to help ensure compliance with cash-handling policies. Training should cover, but not be limited to, timely deposits, safeguarding of funds, proper endorsement, reconciliation of merchandise sales, and segregation of duties.

MANAGEMENT RESPONSE

We concur.

- a. Locations noted in the report will be reviewed for potential designation as official cash-collection points.
- b. Change funds noted in the report will be reviewed for appropriateness.
- c. Cash-handling policies and procedures will be recommunicated to the campus to ensure training and adequate oversight is provided to cash-handling areas.

This will be completed by February 1, 2018.

2. CAMPUS PROGRAM EXPENDITURES

OBSERVATION

Expenditures from campus program accounts held at Auxiliary Services Corporation (ASC) were not always sufficiently planned, supported, or in compliance with ASC procurement policies.

We reviewed five HHD campus program accounts, from which we reviewed 15 expenditures from January 2015 through May 2017.

We found that five expenditures totaling \$10,830 for one campus program account were for capitalized equipment, contracted services, participant awards, promotional materials, and postage and delivery. However, these significant purchases were not listed as anticipated expenses on either the initial or the updated ASC Campus Program Agreement.

One of these five expenditures was for a total of \$2,550 in gift cards, which were purchased with an ASC procurement card, a prohibited method of payment, according to the ASC *Procurement Card Policy*.

Another of these five expenditures for contracted services of \$150 did not have an executed agreement in place indicating the terms of service.

Diligent oversight of expenditures helps to ensure compliance with procurement policies, improves accountability, and allows for appropriate administration of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with ASC:

- a. Review and update the ASC Campus Program Agreement for the campus program account noted above to ensure that anticipated expenses listed on the agreement reflect current practice.
- b. Communicate procurement policies to ASC procurement cardholders to reiterate key procedures, including prohibited purchases.
- c. Ensure that expenditures related to contracted services have the appropriate contractual agreements in place.

MANAGEMENT RESPONSE

We concur.

- a. ASC will submit a letter of instruction to account-holders to review and match their current expenditure practice with the agreements on file. The anticipated date of completion is February 28, 2018.
- b. ASC will submit a letter of instruction to cardholders and approvers regarding purchasing policies and procedures. The anticipated date of completion is January 31, 2018.
- c. ASC will submit a letter of instruction to account directors and personnel regarding purchasing policies and procedures. The anticipated date of completion is January 31, 2018.

3. SENSITIVE EQUIPMENT

OBSERVATION

Theft-sensitive equipment was not always tagged and tracked.

In general, campus assets are tracked in the PeopleSoft Asset Management database. According to the California State University, Fullerton *University Property Guidelines*, the campus division of information technology (IT) is responsible for tagging portable computing devices. Campus departments are responsible for tracking all equipment not included in the PeopleSoft Asset Management database.

We reviewed 45 HHD expenditures from both state and auxiliary funds from January 2015 through June 2017, from which we reviewed six purchases that were related to sensitive equipment. We found that:

- In two instances, equipment was purchased with a department procurement card, using state funds, upon approval from the division of IT. One of these purchases was for a \$3,708 computer tower that was not tagged and tracked. Another was for two tablets, totaling \$2,598, that were not tracked.
- In one instance, a \$552 tablet was purchased using campus program account funds and ASC sent the campus the required quarterly report of equipment purchased with auxiliary funds for the purpose of transferring asset information; however, the tablet was not tracked by the HHD IT department.

Proper tagging and tracking of theft-sensitive equipment decreases the risk of inaccurate equipment records and misappropriation or theft of university-owned assets.

RECOMMENDATION

We recommend that the campus:

- a. Tag and track all theft-sensitive equipment.
- b. Improve its method of communication among the campus division of IT and campus departments to ensure appropriate tagging and tracking of all portable computing devices, including equipment transferred from ASC or purchased with department procurement cards.

MANAGEMENT RESPONSE

We concur.

- a. The university will designate a single “delivery point” (PLS-82) for all theft-sensitive equipment purchased with departmental procurement cards. Instructions to the campus will be disseminated via the asset management campus wide policy manual and procurement card program policy manual.

- b. The campus policy will require a single delivery point for all portable computing devices, including equipment transferred from ASC or purchased with department procurement cards. The implementation of this policy will insure the proper tagging and tracking of theft-sensitive equipment and decrease the risk of inaccurate equipment records and misappropriation or theft of university-owned assets.

The anticipated date of completion is February 28, 2018.

4. PROCUREMENT CARD ADMINISTRATION

OBSERVATION

Campus procurement card policies and procedures did not address training for procurement-card-approving officials, and this training was not completed as required by ICSUAM §5250, *Procurement Cards*.

Adequate training provides assurance that approvers understand their responsibilities and decreases the risk of unallowable or inappropriate purchases.

RECOMMENDATION

We recommend that the campus:

- a. Update the campus procurement card policies and procedures to align with systemwide requirements for completion of procurement-card-approver training.
- b. Provide procurement-card training to current approving officials in HHD and obtain documentation acknowledging that they have completed the training.

MANAGEMENT RESPONSE

We concur. The procurement card policy manual has been updated to require approvers to take the “P-Card Approving Official – Online Training” on the employee training center (ETC). ETC will monitor and track the completion by all approvers within 90 days. Failure to complete the training will result in the possible suspension of the procurement card. In addition, the approving official will be required to take the training course every two years. An e-business programs update was emailed on September 1, 2017, to the campus and included the required ETC approver training.

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 ICSUAM requirements; funds in auxiliary organization accounts primarily follow requirements set forth in the *CSU Auxiliary Organizations Sound Business Practice Guidelines* and Title 5 of the California Code of Regulations.

At California State University, Fullerton (CSU Fullerton), the dean of each college has overall responsibility for oversight of financial administration within the college, supported by the associate dean(s) and chair of each department. Additionally, each college has a budget manager under the direct authority of the dean to ensure compliance with fiscal policies and procedures. The office of the provost and vice president for academic affairs also provides centralized oversight over college financial activities.

HHD consists of eight departments: child and adolescent studies, counseling, health science, human services, kinesiology, military science, nursing, and social work. The college also houses a variety of centers and institutes that integrate the community with the college, including, among others, the Center for Autism, Center for Cancer Disparities and Research, Center for Community Collaboration, Center for Promotion of Healthy Lifestyles, Center for Sports Performance, Center for Successful Aging, and Health Promotion Research Institute.

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 CSU Fullerton campus from June 19, 2017, through July 21, 2017. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative at HDD. The audit focused on procedures in effect during the period from January 1, 2015, through July 21, 2017.

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*
- *CSU Auxiliary Organizations Sound Business Practice Guidelines*
- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- *CSU Fullerton Cash Management Policy*
- *CSU Fullerton Contracts and Procurement Operations Manual*
- *CSU Fullerton University Property Guidelines*
- *ASC Cash and Check Handling Policy*
- *ASC Fixed Assets Policy*
- *ASC Procurement Card Policy*

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