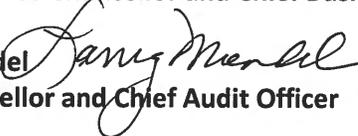


MEMORANDUM

Date: October 20, 2015

To: Steven Relyea
Executive Vice Chancellor and Chief Business Officer

From: Larry Mandel 
Vice Chancellor and Chief Audit Officer

Subject: Audit Report 15-28, *College Reviews*, Systemwide

We have completed an audit of *College Reviews* as part of our 2015 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 recommendation. 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.

LM:amd

c: Timothy P. White, Chancellor



COLLEGE REVIEWS

Systemwide

Audit Report 15-28
September 11, 2015

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of college 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 (CO) directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the administrative and financial controls for the administration of campus colleges, 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 activities.

Although the objectives of this audit were met, we observed that some improvements should be made to ensure that sufficient cash-handling and accounts receivable controls exist for college or department funds that are administered by auxiliary organizations.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CAMPUS PROGRAM ACCOUNTS

OBSERVATION

Systemwide policies relating to campus program accounts needed improvement.

We found that ICSUAM §13680.0, *Placement and Control of Receipts for Campus Program Accounts*, required campuses to define ownership, including fiscal liabilities, of campus program accounts. However, in practice, auxiliaries that held these funds limited fiscal oversight primarily to the review of expenditures and expenditure processing. There was often limited or no oversight provided by auxiliaries for cash-handling or accounts receivable activities for campus program accounts. In addition, campuses did not provide oversight over cash-handling or accounts receivable functions, because the accounts were held at the auxiliaries.

Clear and consistent policies and procedures for campus program accounts improve the fiscal administration of these accounts and help to ensure that all parties understand their responsibilities.

RECOMMENDATION

We recommend that the CO review and update existing policies on campus program accounts to address the responsibilities campuses and auxiliaries have for oversight of cash-handling and accounts receivable activities.

MANAGEMENT RESPONSE

We concur. The CO will review and update existing policies on campus program accounts to address the responsibilities campuses and auxiliaries have for oversight of cash-handling and accounts receivable activities. This recommendation will be completed by February 2016.

GENERAL INFORMATION

BACKGROUND

The California State University is the nation's largest four-year public university system, with 23 campuses offering more than 1,800 bachelor's and master's degree programs in 240 subject areas. 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 *Compilation of Policies and Procedures for California State University Auxiliary Organizations* and Title 5 of the California Code of Regulations.

SCOPE

We used financial and other factors to select an academic college for review at each campus that we visited. 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, such as total revenues and expenditures, college activities, and management turnover, to make our determination.

During the course of the audit, we visited five campuses: Chico, Los Angeles, Northridge, Pomona, and Sacramento. We interviewed campus personnel and audited procedures in effect from January 1, 2013, through May 15, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether administrative and financial controls are in place and operative.

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 California State University (CSU) and campus policies.
- Identification, tracking, and tagging of sensitive equipment purchases.
- Administration of faculty and staff reimbursed time.
- Measures to ensure that stand-alone information systems are included in the campus inventory of information assets.

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 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

AUDIT TEAM

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Senior Audit Manager: Wendee Shinsato
Senior Auditors: Christina Chen and Cindy Merida