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July 14, 2015

Dr. Dianne F. Harrison, President
California State University, Northridge
18111 Nordhoff Street
Northridge, CA 91330-8230

Dear Dr. Harrison:

Subject: Audit Report 15-29, College Reviews, California State University, Northridge

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 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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COLLEGE REVIEWS

**California State University,
Northridge**

**Mike Curb College of Arts,
Media, and Communication**

Audit Report 15-29
June 1, 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 directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, college administrative and financial controls in effect as of March 27, 2015, 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 for the areas reviewed were sound and have been strengthened this fiscal year with a change in administration in the dean's office. However, the review did identify opportunities for improvement in overall administration of financial operations for campus programs run through auxiliary and campus accounts. The absence of clear policies to address cash handling and other related areas for these programs and turnover of college and department personnel may have contributed to these issues.

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

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. POLICIES AND PROCEDURES

OBSERVATION

Fiscal policies and procedures for the campus and the University Corporation (TUC) did not address campus programs that ran their financial operations through TUC.

We reviewed the Music Therapy Wellness Clinic and the Youth Orchestras, both of which are affiliated with the music department but run their financial operations through auxiliary funds held at TUC. We noted that it was unclear which cash handling and accounts receivable policies and procedures these programs should follow because they were campus programs administered by campus employees, but their financial operations were run through TUC. We also noted that TUC did not have its own policies or procedures for cash handling and accounts receivable for campus programs administered outside of the TUC accounting office. We found that:

- Checks were not endorsed upon receipt, as neither program had an endorsement stamp.
- Checks were not deposited within the three business days of receipt, the time frame required by the campus for state funds. Instead, they were deposited either weekly or bi-weekly. In addition, at the Youth Orchestras, checks were not always adequately secured between deposits.
- At the Youth Orchestras, segregation of duties was inadequate, as the business manager collected payments, created and made deposits, tracked and followed up on accounts receivables, and was also an authorized signer on the Youth Orchestra fund.
- Background checks were not always performed for employees with cash-handling duties.
- Both programs handled their own accounts receivable. Although their methods of processing receivables appeared to be adequate, we noted that there was no mechanism to ensure that accounts receivable balances were included in the TUC financial statements, when applicable. TUC considered itself to be a checking account or bank repository for these programs and did not record any balance sheet activity for the programs in its financial statements other than the balance in their funds.

Defined policies and procedures for cash handling and accounts receivable processing improve accountability of funds, decrease the chance that funds will be lost or stolen, and allow receivables to be properly reflected in financial statements.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC:

- a. Determine the appropriate cash-handling and accounts receivables policies to be used for campus programs and employees that deposit funds to TUC. If campus policies should be

used, update these policies to clarify this requirement. If TUC policies should be used, develop and implement appropriate TUC cash-handling and accounts receivable policies for campus program locations.

- b. Train appropriate employees at the Music Therapy Wellness Clinic and Youth Orchestras on the updated policies.

MANAGEMENT RESPONSE

We concur.

- a. The finances for the Music Therapy Wellness Clinic and Youth Orchestras will be moved to state side; accordingly, campus policies for cash handling and accounts receivable will apply.
- b. Employees at the Music Therapy Wellness Clinic and Youth Orchestras will receive training on campus cash-handling and accounts receivable policies.

Expected completion date: October 1, 2015

2. PETTY CASH FUNDS

OBSERVATION

Petty cash funds were not properly authorized and safeguarded at the Youth Orchestras.

We found that the Youth Orchestras held an unofficial petty cash fund that had been started through the sale of snacks to Youth Orchestra members. This fund was used to buy additional snacks and to make change for snack purchases. It was not adequately secured, as it was kept in an unlocked box in an unlocked filing cabinet.

Proper authorization and safeguarding of petty cash funds improves accountability for the cash, allows for appropriate administration of the funds, and decreases the chance that funds will be lost or stolen.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC, work with the Youth Orchestras to either properly authorize its petty cash fund and implement appropriate cash controls surrounding its use, or close the petty cash fund and deposit it to the Youth Orchestras account at TUC.

MANAGEMENT RESPONSE

We concur. The unauthorized petty cash fund of Youth Orchestras will be deposited to the Youth Orchestras account at TUC.

Expected completion date: July 15, 2015

3. DEPARTMENTAL DEPOSITS

OBSERVATION

Oversight over departmental deposit locations needed improvement.

We reviewed three cash-handling locations that deposited funds to the university cashier: the Center for Visual Communications, the Sundial, and the Cinema and Television Arts (CTVA) department.

We found that:

- Background checks were not always performed at two locations for employees who assumed cash-handling duties after the time of hire.
- Deposits were not always made within three business days of receipt at the Sundial and the CTVA department, as required by campus policy. In addition, deposits were not made by two employees at the CTVA department, as required by campus policy.
- Checks were not endorsed on the day they were received at the Sundial; instead, they were endorsed on the day they were deposited to university cashing services. In addition, Sundial advertising brochures stated that checks should be made out to the Sundial, rather than to California State University, Northridge.
- Credit card information was not always adequately safeguarded at the Sundial. Student assistants who processed credit card information while working as sales representatives had not undergone background checks. In addition, full credit card information was retained in unlocked filing cabinets in the Sundial office after it was submitted for processing to university cashing services. Further, although credit card payments were primarily accepted by phone or through the mail, they were also sometimes made via email or fax.
- The Sundial handled its own invoicing, collection, and write-off of accounts receivable, although campus policies required that all state accounts receivable be handled centrally in financial services. As a result, segregation of duties for accounts receivable was inadequate, as the person collecting and depositing payments was the same person responsible for updating the accounts receivable system, and accounts receivable balances were not included in the campus financial statements.

Appropriate oversight and review of departmental deposit locations ensures that employees are properly trained and cognizant of campus policies and procedures and decreases campus exposure to loss or liability.

RECOMMENDATION

We recommend that the campus:

- a. Work with departments in the College of Arts, Media and Communication (CAMC) so they understand that if an employee takes over cash-handling responsibilities, human resources should be notified so that background checks can be appropriately conducted.
- b. Provide refresher training on cash-handling policies and procedures to the financial administrators at the Sundial and CTVA department.
- c. Update Sundial processes for accepting credit card payments to ensure that credit card information is adequately safeguarded and that individuals who process credit card information undergo background checks.
- d. Move Sundial accounts receivable processing to central financial services, as required by campus policy.

MANAGEMENT RESPONSE

We concur.

- a. Cash-handling requirements were reiterated to CAMC employees to clarify that if an employee takes over cash-handling responsibilities, human resources should be notified so that background checks can be appropriately conducted.
- b. Refresher training on cash-handling policies and procedures will be provided to the financial administrators at the Sundial and CTVA department.

Expected completion date: September 15, 2015

- c. Sundial processes for accepting credit card payments will be updated to ensure that credit card information is adequately safeguarded and that individuals who process credit card information undergo background checks.

Expected completion date: September 15, 2015

- d. The Sundial accounts receivable operation will be administered by CSUN central accounts receivable.

Expected completion date: September 15, 2015

4. SENSITIVE EQUIPMENT

OBSERVATION

College practices relating to tracking and disposing of sensitive computer-related equipment were not documented.

We noted that although the campus generally did not track sensitive equipment (equipment easily subject to theft or loss, including computer-related equipment) under a threshold of \$2,000 at a centralized level, it required departments to ensure that any computer-related equipment under this threshold amount that could contain sensitive data was tracked and properly disposed of.

We reviewed several computer-related equipment purchases for the college that were under the \$2,000 threshold, and we found that the college generally had good practices in place to ensure that this equipment was properly tracked, tagged when appropriate, and disposed of. However, the college had not documented these practices.

Documented policies and procedures ensure that employees are aware of college requirements, activities are carried out consistently, and continuity is preserved through any changes in personnel.

RECOMMENDATION

We recommend that the campus work with the CAMC to document its practices relating to tracking and disposing of sensitive computer-related equipment.

MANAGEMENT RESPONSE

We concur. CAMC will document its practices relating to tracking and disposing of sensitive computer-related equipment in line with university policies. The documentation will be distributed in fall 2015 to all department chairs and analysts.

Expected completion date: September 15, 2015

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 CSU Auxiliary Organizations* and Title 5 of the California Code of Regulations.

At CSUN, the dean of each college has overall responsibility for administration within the college, supported by the chair of each department. Additionally, each college has a professional financial administrator, the manager of academic resources (MAR), to ensure compliance with fiscal policies and procedures and to act as a liaison to the division of administration and finance. The MAR works under the direct authority of the dean, with dotted-line reporting to the department of academic resources and planning, which is responsible for overall budget planning and fiscal solvency of the division of academic affairs. Each department also has a financial analyst, who is responsible for processing financial transactions at the department level. Centralized oversight over college and department financial activities is also provided by central finance through the financial services department.

The Mike Curb College of Arts, Media and Communication consists of six departments: art, cinema and television arts, communication studies, journalism, music, and theater. It houses a variety of programs and activities that integrate the community with the college, including the Entertainment Industry Institute, the Visual Communications Center, the CSUN Youth Orchestras program, and the Music Therapy Wellness Clinic.

SCOPE

We used financial and other factors to select an academic college 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, such as total revenues and expenditures, college activities, and management turnover, to make our determination.

We visited the CSUN campus from February 23, 2015, through March 27, 2015. 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 Mike Curb College of Arts, Media and Communication. The audit focused on procedures in effect from January 1, 2013, through March 27, 2015.

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.
- 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*
- Coded Memorandum Human Resources 2005-10, *Background Checks*
- *Compilation of Policies and Procedures for CSU Auxiliary Organizations*
- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- CSUN *Cash Handling Procedures*
- CSUN *Asset Management Standard Operating Procedures*

AUDIT TEAM

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