FISMA

HUMBOLDT STATE UNIVERSITY

Report Number 04-07
March 29, 2005

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ABBREVIATIONS

CSU          California State University
FISMA        Financial Integrity and State Manager’s Accountability Act
HSU          Humboldt State University
PIMS         Personnel/Payroll Management Information Systems
SAM          State Administrative Manual
SCO          State Controller’s Office
SUAM         State University Administrative Manual
EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors) as required by Government Code, Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

Humboldt State University (HSU) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.

- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.

- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual (SAM), Education Code, Title 5, and Trustee policy.

We visited the HSU campus from October 11, 2004, through December 16, 2004, and made a study and evaluation of the accounting and administrative control in effect as of December 16, 2004. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, cash disbursements, payroll and personnel, fiscal information technology, trust funds, and PeopleSoft implementation. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, HSU’s accounting and administrative control in effect as of December 16, 2004, taken as a whole, was sufficient to meet the objectives stated above.

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.

The following summary provides management with an overview of conditions requiring their 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]**

Cash receipts were transferred from extended education to main cashiering without the use of transfer receipts.

**ACCOUNTS RECEIVABLE [6]**

Delinquent non-student accounts receivable were not adequately pursued to ensure timely collection. A review of 22 non-student outstanding receivables dated between March 2004 and August 2004 disclosed no evidence of collection efforts. These accounts totaled $233,370 and included 12 auxiliary billings and 10 third-party billings totaling $84,394 and $148,976, respectively.

**CASH DISBURSEMENTS [7]**

Accounts payable employees who were responsible for entering invoices for payment were inappropriately given the ability to create and update vendor information, record goods and services as received, and were responsible for proofing and mailing accounts payable checks.

**PAYROLL AND PERSONNEL [8]**

Undelivered salary warrants were not remitted to the State Controller’s Office (SCO) timely. A review of undelivered salary warrants as of November 17, 2004, disclosed 114 warrants dated between March 4, 2004, and June 25, 2004. In addition, procedures for monitoring compliance with the CSU Additional Employment Policy were not adequate. Although human resources had communicated the Additional Employment Policy to the campus, procedures had not been established to formally monitor and document compliance with the policy, including the impact on the time base from the combination of primary employment, sponsored education instruction, and special consulting assignments. Further, the campus did not have procedures in place to formally monitor compliance with the CSU student assistant policy regarding employment limitations to ensure that student assistants did not work over 20 hours per week during periods when classes were in session.

**FISCAL INFORMATION TECHNOLOGY [11]**

Control over the integrity of data files was not adequate, because there was no authorization or monitoring process over the use of Oracle IDs that allowed certain individuals to modify production PeopleSoft data. In addition, access roles and privileges to the PeopleSoft financial system were not effectively assigned to prevent unauthorized access and data modification.
EXECUTIVE SUMMARY

TRUST FUNDS [13]

Trust fund expenditures were not always properly approved. A review of 20 trust fund expenditures disclosed that five expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

PEOPLESOFTH IMPLEMENTATION [13]

Certain reconciliations and reports had not been prepared/received since June 2004. Bank, revolving fund, SCO expenditure, fixed assets, and investment reconciliations had not been completed. In addition, basic reports necessary to perform these reconciliations had not been generated from the PeopleSoft system. Further, the campus had not been able to generate an open purchase order report and accounts receivable aging schedule, because PeopleSoft’s corresponding standard reports were not functioning properly, which impacted the review of outstanding purchase orders and collection of accounts receivable. These reconciliations and reports were completed/received in a timely manner prior to the PeopleSoft implementation.
INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems to ensure 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.
- Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- Investments are adequately controlled and securities are safeguarded.
- Trust funds are established in accordance with State University Administrative Manual (SUAM) guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. 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 2003/04 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 2004 to September 2004. Our primary focus was on internal controls. Specifically, we reviewed and tested:
INTRODUCTION

- 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 regarding billing 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 reconciliation of bank accounts.
- 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 accounting systems and related computer facilities/equipment, and administration of information technology operations.
- Procedures for initiating, evaluating, and accounting for investments.
- Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond December 16, 2004. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Cash receipts were transferred from extended education to main cashiering without the use of transfer receipts.

State Administrative Manual (SAM) §8021 states that a separate series of transfer receipts will be used to localize accountability for cash or negotiable instruments to a specific employee from the time of receipt to its deposit.

The supervisor of cashiering and registration stated that transfer receipts were used for all funds brought to the cashier’s office for entry into the cashiering system. She further stated her belief that since extended education entered its transactions into the cashiering system, the use of transfer receipts would be duplication.

Inadequate control over cash receipts increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus implement the use of transfer receipts between the office of extended education and main cashiering.

Campus Response

We concur. Cashiering is now completing transfer receipts when funds are transferred from extended education to the cashiering office.

Implementation completed.

ACCOUNTS RECEIVABLE

Delinquent non-student accounts receivable were not adequately pursued to ensure timely collection.

Our review of 22 non-student outstanding receivables dated between March 2004 and August 2004 disclosed no evidence of collection efforts. These accounts totaled $233,370 and included 12 auxiliary billings and 10 third-party billings totaling $84,394 and $148,976, respectively.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables and states that a sequence of three collection letters is to be sent. Further, if all reasonable collection procedures are unsuccessful, an analysis should be prepared to determine what additional collection efforts should be made.
The interim director of fiscal affairs stated that due to budget reductions, two positions responsible for collecting delinquent accounts remained unfilled and the manager was heavily involved in the PeopleSoft implementation.

Inadequate control over delinquent accounts reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

**Recommendation 2**

We recommend that the campus ensure that non-student accounts receivable are promptly pursued for collection.

**Campus Response**

We concur. Fiscal affairs is in the process of hiring an additional staff position to perform collection activities.

Implementation will be completed by July 31, 2005.

**CASH DISBURSEMENTS**

Accounts payable employees who were responsible for entering invoices for payment were inappropriately given the ability to create and update vendor information, record goods and services as received, and were responsible for proofing and mailing accounts payable checks.

SAM §8080.1 states that no one person will perform more than one of a variety of duties, including preparing checks, maintaining records files, and comparing machine-signed checks with authorizations and supporting documents. Checks will not be routed for mailing or distribution through the person who authorized the disbursement or prepared the check.

SAM §20050 states that the elements of an adequate system of internal accounting and administrative controls include a system of authorization and recordkeeping procedures adequate to provide effective control over assets, liabilities, revenues, and expenditures.

The interim director of fiscal affairs stated that when the campus went live on PeopleSoft, some concessions were made for training purposes and to catch up on the backlog of work, while management reviewed the need to shift duties and implement controls in the new system.

Inadequately segregating incompatible duties increases the risk of erroneous or fraudulent payments for goods and services not received.
**Recommendation 3**

We recommend that the campus review cash disbursement activities and take appropriate action to either segregate duties or establish effective mitigating controls.

**Campus Response**

We concur. Disbursement activities have been segregated to reestablish effective controls.

Implementation completed.

**PAYROLL AND PERSONNEL**

**UNDELIVERED WARRANTS**

Undelivered salary warrants were not remitted to the State Controller’s Office (SCO) timely.


SAM §8580.5 requires that salary warrants not delivered within 90 calendar days of receipt must be returned to the SCO for deposit to an escheat revenue account in the original fund that provides the resources to the state payroll revolving fund.

The interim director of fiscal affairs stated that there was a breakdown in communication between the areas that process unclaimed salary warrants during the PeopleSoft implementation. She further stated that the majority of unclaimed checks were student pay warrants, and it was felt the students would claim their warrants at the start of fall semester.

Untimely remittance of undelivered salary warrants increases the risk of misappropriated funds.

**Recommendation 4**

We recommend that the campus strengthen procedures to ensure that undelivered salary warrants are returned timely to the SCO.

**Campus Response**

We concur. Procedures have been communicated to all areas that are involved in the remitting of undelivered salary warrants.

Implementation completed.
ADDITIONAL EMPLOYMENT

Procedures for monitoring compliance with the California State University (CSU) Additional Employment Policy were not adequate.

Although human resources had communicated the Additional Employment Policy to the campus, procedures had not been established to formally monitor and document compliance with the policy, including the impact on the time base from the combination of primary employment, sponsored education instruction, and special consulting assignments. Human resources expected department managers to inform them of any potential issues, questioned new employees about other jobs they might have, and investigated when an employee was noted to have two positions.

CSU directive Human Resources 2002-05, Additional Employment Policy, dated February 19, 2002, requires the campus to determine the extent of an employee’s CSU workload prior to appointment to any position. It further indicates that the campus is responsible for developing appropriate guidelines for implementation and for developing procedures for prior approval and monitoring of all additional employment.

Executive Order 890, dated January 7, 2004, states that each campus shall develop a process for monitoring employment, including additional employment through contracts and grants, and shall comply with the limits established by the CSU Additional Employment Policy.

Articles 36.1 and 36.4 of the Collective Bargaining Agreement between the CSU Board of Trustees and the California Faculty Association for June 30, 2004, through June 30, 2005, indicate that additional employment shall refer to any employment compensation by the CSU funded by the General Fund or non-General Fund, including CSU auxiliaries, which is in addition to the primary or normal employment of a faculty unit employee. The total additional employment of a faculty unit employee shall not exceed a total of 25 percent overage. Overage is calculated as a percentage of full-time workload or, when appropriate, full-time time base.

The interim director of fiscal affairs and the director of human resources both stated that they were unaware that the existing human resources procedures were insufficient.

Inadequate documentation of procedures and records for monitoring additional employment increases the risk of non-compliance with CSU policy and the Collective Bargaining Agreement.

Recommendation 5

We recommend that the campus establish and implement procedures to formally monitor and document compliance for all additional employment, including approval and documentation requirements, and distribute the procedures to all employees involved in the process.
Campus Response

We concur. A plan will be developed and implemented to monitor and document compliance with the CSU Additional Employment Policy.

Implementation will be completed by September 30, 2005.

STUDENT EMPLOYMENT

The campus did not have procedures in place to formally monitor compliance with the CSU student assistant policy.

Our review disclosed that procedures had not been established to monitor employment limitations to ensure that student assistants did not work over 20 hours per week during periods when classes were in session.

Humboldt State University (HSU) policy states that student assistants should typically not work more than 20 hours a week when classes are in session.

CSU Personnel/Payroll Management Information System (PIMS) User Manual states that CSU policy permits student assistants covered under the Federal Insurance Contribution Act exemption to work in a part-time capacity up to, but not normally in excess of, 20 hours per week during periods when classes are in session, and up to 40 hours per week during recess periods. Chancellor’s office approval is required when students employed in these classifications work in excess of these guidelines.

The interim payroll officer stated that she informally monitored students to ensure that they did not typically work in excess of 20 hours per week and had not noticed any students who were routinely working in excess of 20 hours per week.

Inadequate procedures for monitoring student assistants increase the risk of non-compliance with HSU and CSU policies.

Recommendation 6

We recommend that the campus establish and implement procedures to monitor hours worked by student assistants.

Campus Response

We concur. The payroll office has developed a spreadsheet to monitor the hours that student assistants are working in order to notify applicable departments of students who are routinely working in excess of 20 hours per week.

Implementation completed.
FISCAL INFORMATION TECHNOLOGY

PRODUCTION DATA ACCESS

There were no authorization or monitoring controls over the use of Oracle IDs that allowed certain individuals to modify production PeopleSoft data.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective account management. Effective account management is considered to include an appropriate authorization and monitoring of accounts that have access to production data files.

The analyst/programmer of fiscal affairs stated that guidelines had not yet been established for monitoring the use of production Oracle accounts.

Inadequate control over the use and monitoring of accounts with access to production data increases the risk of unauthorized and undetected modification of production data.

Recommendation 7

We recommend that the campus develop guidelines and implement a process for authorizing and monitoring the use of Oracle IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. Guidelines will be developed and a process established for authorizing and monitoring the use of Oracle IDs with access to production data.

Implementation will be completed by September 30, 2005.

PEOPLESOFTH ACCESS PRIVILEGES

Access roles and privileges to the PeopleSoft financial system were not effectively assigned to prevent unauthorized access and data modification.

We found that:

- Consultants had been granted “all panels” privileges.
- Unused classes had not been removed.
- Unused IDs had not been removed.
Some individuals had been given privileges to the purchasing, general ledger, and accounts payable modules that were not compatible with their assigned duties.

Various user IDs had update access to vendor information, which included staff members from purchasing and accounting.

The use of correction mode had not been adequately addressed.

SAM §8080.1 states that each state agency is responsible for establishing and maintaining an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, “no one person shall perform more than 1 of 11 types of duties, including maintaining records file and operating mechanized equipment, initiating disbursement documents, approving disbursement documents, and inputting disbursement information.”

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

The analyst/programmer of fiscal affairs stated that the system had been recently implemented, and the privileges that were set up for preproduction had not yet been reevaluated.

Failure to properly limit access to only those who need the privileges to perform job duties increases the risk of fraudulent or unauthorized activities.

Recommendation 8

We recommend that the campus review access privileges and take appropriate action to segregate duties and restrict update responsibilities. Specifically, the campus should:

a. Reduce the number of individuals who are granted “all panels” privileges.

b. Remove unused roles, permissions, and IDs.

c. Remove individual privileges to multiple application modules that are incompatible with their assigned duties.

d. Restrict update access to vendor information.

e. Restrict the use of correction mode.

Campus Response

We concur. These practices will be systematically reviewed and changed to segregate duties and improve controls.

Implementation will be completed by September 30, 2005.
TRUST FUNDS

Trust fund expenditures were not always properly approved.

Our review of 20 trust fund expenditures disclosed that five expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

SAM §19440.1 provides that each trust account established shall be supported by documentation of the persons authorized to withdraw or expend funds, their specimen signatures, the purpose of the trust, and restrictions on the use of monies.

The director of contracts and procurement stated that prior to the PeopleSoft implementation, the reimbursed activity accounts were used for trust expenditures, which made it difficult for the procurement staff to monitor trust fund activity taking place in these reimbursed accounts.

Failure to obtain proper authorization increases the risk of inappropriate expenditures and loss.

Recommendation 9

We recommend that the campus strengthen procedures to ensure that trust expenditures are properly authorized.

Campus Response

We concur. Contracts and procurement will review trust agreements and signature authority cards for proper authorization prior to processing purchasing requisitions.

Implementation completed.

PEOPLESOFT IMPLEMENTATION

Certain reconciliations and reports had not been prepared/received since June 2004.

We found that:

- Bank, revolving fund, SCO expenditure, fixed assets, and investment reconciliations had not been completed since June 2004. In addition, basic reports necessary to perform these reconciliations had not been generated from the PeopleSoft system. These reconciliations were completed on a timely basis prior to the PeopleSoft implementation.

- The campus had not been able to generate an open purchase order report and accounts receivable aging schedule since June 2004, because PeopleSoft’s corresponding standard reports were not functioning properly, which impacted the review of outstanding purchase orders and collection of accounts receivable.
SAM §8060 states that all bank and centralized State Treasury System accounts will be reconciled promptly at the end of each month.

SAM §7800 requires that the subsidiary ledger be reconciled to the general ledger account monthly.

SAM §7901 requires monthly preparation of all reconciliations of agency accounts to records other than those prepared by the agency within 30 days of the preceding month.

SAM §7924 requires agencies to reconcile equipment expenditures at the end of each month or each quarter from the current year’s state operations appropriation with accretions of major property to the property ledger.

SAM §8193 states that two monthly reconciliations are required for revolving fund transactions. The Revolving Fund Cash Book balance plus the general ledger balance of Account No. 1110, General Cash, and Account No. 1120, Agency Trust Fund Cash, will be reconciled to the General Checking Account in the centralized State Treasury System. Also, the revolving fund resources will be reconciled with the amount of cash advanced as shown in Account No. 1130 of the funds concerned.

SAM §8422.20 requires follow-up on outstanding purchase documents/contracts to determine whether all goods and services ordered are actually received.

SAM §8776.6 and §8776.7 require establishment of procedures to follow when attempting to collect past-due accounts receivable. These procedures are based on the amount of the receivable, as well as how long it has been outstanding. A current aging schedule should be prepared to identify existing accounts receivable and the length of time they have been outstanding.

SAM §20500 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The interim director of fiscal affairs stated that the heavy workload during the PeopleSoft implementation, staffing shortages, and the lack of delivered transaction reports in PeopleSoft contributed to the untimely reconciliation of accounts and unavailability of open purchase order and non-student aging reports.

Untimely reconciliations increase the risk that errors and irregularities will not be detected, and the lack of open purchase order reports and accounts receivable aging schedules hinders the campus’ ability to monitor delivery delays and perform collection activities.

**Recommendation 10**

We recommend that the campus obtain the necessary:

a. Reports and promptly prepare bank, revolving fund, SCO expenditure, fixed assets, and investment reconciliations or establish interim reconciliation procedures.
b. Open purchase order reports and accounts receivable aging schedules or develop alternative methods to effectively monitor open purchase orders and accounts receivable aging.

**Campus Response**

We concur.

Implementation completed.
# APPENDIX A:
## PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rollin C. Richmond</td>
<td>President</td>
</tr>
<tr>
<td>Patricia Ambrosini</td>
<td>Interim Payroll Officer</td>
</tr>
<tr>
<td>Joyce Baltierra</td>
<td>Office Manager, Contracts and Procurement</td>
</tr>
<tr>
<td>Leo Brouillard</td>
<td>Unix Systems Administrator</td>
</tr>
<tr>
<td>David Bugbee</td>
<td>Associate Director, Human Resources and Risk Management</td>
</tr>
<tr>
<td>Deborah Bushnell</td>
<td>Administrative Support Assistant, Fiscal Affairs</td>
</tr>
<tr>
<td>Carl Coffey</td>
<td>Vice President, Development and Administrative Services</td>
</tr>
<tr>
<td>Tammy Curtis</td>
<td>Associate Director, Human Resources and Risk Management</td>
</tr>
<tr>
<td>Nick DeRuyter</td>
<td>Interim Manager, University Computing Services</td>
</tr>
<tr>
<td>Thomas Dewey</td>
<td>Chief of Police</td>
</tr>
<tr>
<td>Gail Finney</td>
<td>Accounts Payable Technician</td>
</tr>
<tr>
<td>Kathleen Forsburg</td>
<td>Accountant</td>
</tr>
<tr>
<td>Rick Garcia</td>
<td>Manager, Telecommunications and Network Services</td>
</tr>
<tr>
<td>Richard Giacolini</td>
<td>Director, Contracts and Procurement</td>
</tr>
<tr>
<td>Katherine Granfield</td>
<td>Analyst/Programmer, Fiscal Affairs</td>
</tr>
<tr>
<td>Carl Hasen</td>
<td>Director, Office of Extended Education</td>
</tr>
<tr>
<td>Connie Higgins</td>
<td>Supervisor, Cashiering and Registration</td>
</tr>
<tr>
<td>Denise Isaac</td>
<td>Accountant</td>
</tr>
<tr>
<td>Aleli Lawson</td>
<td>Administrative Coordinator, University Police</td>
</tr>
<tr>
<td>Claudette Lemon</td>
<td>Accountant</td>
</tr>
<tr>
<td>Rita Limmer</td>
<td>Cashier, Housing</td>
</tr>
<tr>
<td>Mary Ann McCulloch</td>
<td>Manager, Financial Aid Accounting</td>
</tr>
<tr>
<td>Paul Meyer</td>
<td>Property Clerk</td>
</tr>
<tr>
<td>Linda Moore</td>
<td>Director, Human Resources</td>
</tr>
<tr>
<td>Pamela Netzow</td>
<td>Accountant</td>
</tr>
<tr>
<td>Wayne Perryman</td>
<td>Library Access Chair</td>
</tr>
<tr>
<td>Lori Rudebock</td>
<td>Interim Director, Fiscal Affairs</td>
</tr>
<tr>
<td>Debra Ryerson-Replogle</td>
<td>Administrative Support Assistant, Fiscal Affairs</td>
</tr>
<tr>
<td>Linda Speers</td>
<td>Lead Account Technician</td>
</tr>
<tr>
<td>Stephen Sullivan</td>
<td>Manager, Parking and Commuter Services</td>
</tr>
<tr>
<td>Carol Terry</td>
<td>Budget Director</td>
</tr>
<tr>
<td>Ken Thrift</td>
<td>Database Administrator</td>
</tr>
<tr>
<td>John Westmoreland</td>
<td>Manager, Distribution Services</td>
</tr>
<tr>
<td>Judy Wolff</td>
<td>Account Technician</td>
</tr>
</tbody>
</table>
STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University 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 that 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 recordkeeping 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.
May 11, 2005

Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach CA 90802-4210

Re: FISMA Audit Report Number 04-07

Dear Mr. Mandel:

Please find enclosed Humboldt State University’s response to Audit Report Number 04-07, FISMA, Humboldt State University. We appreciate the effort you and your staff have made to indicate areas where our procedures could be strengthened. The campus is committed to addressing and resolving the issues noted in the audit report.

While our Interim Director of Fiscal Affairs is on medical leave questions regarding the responses may be directed to Karen Suiker, Assistant Director, Fiscal Affairs at (707) 826-3521 or kbs14@humboldt.edu. After July 6, 2005, please direct your questions to Lori Rudebock, Interim Director, Fiscal Affairs, at (707) 826-3512 or rudebock@humboldt.edu.

Sincerely,

Carl Coffey, Vice President
Administrative Affairs

cc: Rollin C. Richmond, President (w/o enclosure)
Bill Cannon, Director, Information Technology Services (w/enclosure)
Lori J. Rudebock, Interim Director, Fiscal Affairs (w/enclosure)
Karen B. Suiker, Assistant Director, Fiscal Affairs (w/enclosure)
FISMA

HUMBOLDT STATE UNIVERSITY

Report Number 04-07
March 29, 2005

CASH RECEIPTS

Recommendation 1

We recommend that the campus implement the use of transfer receipts between the office of extended education and main cashiering.

Campus Response

We concur. Cashiering is now completing transfer receipts when funds are transferred from extended education to the cashiering office.

Implementation complete.

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus ensure that non-student accounts receivable are promptly pursued for collection.

Campus Response

We concur. Fiscal Affairs is in the process of hiring an additional staff position to perform collection activities.

Implementation will be completed by July 31, 2005.

CASH DISBURSEMENTS

Recommendation 3

We recommend that the campus review cash disbursement activities and take appropriate action to either segregate duties or establish effective mitigating controls.

Campus Response

We concur. Disbursement activities have been segregated to re-establish effective controls.
Implementation complete.

PAYROLL AND PERSONNEL

UNDELIVERED WARRANTS

Recommendation 4

We recommend that the campus strengthen procedures to ensure that undelivered salary warrants are returned timely to the SCO.

Campus Response

We concur. Procedures have been communicated to all areas that are involved in the remitting of undelivered salary warrants.

Implementation complete.

ADDITIONAL EMPLOYMENT

Recommendation 5

We recommend that the campus establish and implement procedures to formally monitor and document compliance for all additional employment, including approval and documentation requirements, and distribute the procedures to all employees involved in the process.

Campus Response

We concur. A plan will be developed and implemented to monitor and document compliance with the California State University Additional Employment Policy.

Implementation will be completed by September 30, 2005.

STUDENT EMPLOYMENT

Recommendation 6

We recommend that the campus establish and implement procedures to monitor hours worked by student assistants.

Campus Response

We concur. The payroll office has developed a spreadsheet to monitor the hours that student assistants are working in order to notify applicable departments of students who are routinely working in excess of twenty hours per week.

Implementation complete.
FISCAL INFORMATION TECHNOLOGY

PRODUCTION DATA ACCESS

Recommendation 7

We recommend that the campus develop guidelines and implement a process for authorizing and monitoring the use of Oracle IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. Guidelines will be developed and a process established for authorizing and monitoring the use of Oracle IDs with access to production data.

Implementation will be completed by September 30, 2005.

PEOPLESOF T ACCESS PRIVILEGES

Recommendation 8

We recommend that the campus review access privileges and take appropriate action to segregate duties and restrict update responsibilities. Specifically, the campus should:

a. Reduce the number of individuals who are granted “all panels” privileges.

b. Remove unused roles, permissions, and IDs.

c. Remove individual privileges to multiple application modules that are incompatible with their assigned duties.

d. Restrict update access to vendor information.

e. Restrict the use of correction mode.

Campus Response

We concur. These practices will be systematically reviewed and changed to segregate duties and improve controls.

Implementation will be completed by September 30, 2005.

TRUST FUNDS

Recommendation 9

We recommend that the campus strengthen procedures to ensure that trust expenditures are properly authorized.
Campus Response

We concur. Contracts and Procurement will review trust agreements and signature authority cards for proper authorization prior to processing purchasing requisitions.

Implementation complete.

PEOPLESOF'T IMPLEMENTATION

Recommendation 10

We recommend that the campus obtain the necessary:

a. Reports and promptly prepare bank, revolving fund, SCO expenditure, fixed assets, and investment reconciliations or establish interim reconciliation procedures.

b. Open purchase order reports and accounts receivable aging schedules or develop alternative methods to effectively monitor open purchase orders and accounts receivable aging.

Campus Response

We concur.

Implementation complete.
MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Charles B. Ree
      Chancellor

SUBJECT: Draft Final Report Number 04-07 on FISMA,
         Humboldt State University

In response to your memorandum of June 17, 2005, I accept the response as
submitted with the draft final report on FISMA, Humboldt State University.

CBR/jt
Enclosure

cc: Dr. Rollin C. Richmond, President