

FISMA
HUMBOLDT STATE UNIVERSITY
Audit Report 06-09
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ABBREVIATIONS

CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
HR	Human Resources
HSU	Humboldt State University
SAM	State Administrative Manual
SCO	State Controller's Office
STO	State Treasurer's Office

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, Education Code, Title 5, and Trustee policy.

We visited the HSU campus from November 27, 2006, through December 14, 2006, and made a study and evaluation of the accounting and administrative control in effect as of December 14, 2006. 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, purchasing, cash disbursements, payroll and personnel, fixed assets, fiscal information technology, trust funds, and reconciliations. 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 14, 2006, 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 control weaknesses were found at each of the three satellite cashiering areas visited. Receipts were left unsecured while the cashier was on break and credit card information was stored in unlocked file cabinets located in the office copy room at extended education. Cash and checks received not payable to the university were not logged at athletics. Checks received not payable to housing were not endorsed before transferring to the proper payee.

ACCOUNTS RECEIVABLE [8]

Collection letters were not consistently employed in the pursuit of delinquent third-party accounts receivable. A review of 14 delinquent third-party receivables outstanding as of September 2006 disclosed that a series of three collection letters was not utilized in seven instances. In addition, the campus cost allocation plan was not current.

PURCHASING [10]

Purchasing and contracting activities were not properly delegated. The current delegation listed the previous director of contracts, procurement and risk management and also included the previous director of fiscal affairs.

CASH DISBURSEMENTS [11]

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. This is a repeat finding from the prior FISMA audit. Five accounts payable technicians had the ability to process payments as well as update the vendor master file within PeopleSoft. In addition, long-outstanding checks were not processed in a timely manner. The most recent list of outstanding checks showed 99 checks older than one year totaling \$15,421 dated between September 2004 and August 2005.

PAYROLL AND PERSONNEL [13]

Federal Form I-9, Employment Eligibility Verification, was not always timely completed and properly maintained. A Form I-9 was not completed within three business days of employment as required for two of ten new hires reviewed, and in four instances, the I-9 forms were prematurely discarded.

FIXED ASSETS [14]

Home use permits were not utilized to document the employee's acceptance of responsibility for the off-campus use of campus equipment. Duties and responsibilities related to the performance of physical inventory were not properly segregated. The property clerk performed physical inventory without any assistance or verification from another individual. In addition, he notified the department of any missing property, requested the department to complete a property survey report, which he then processed and approved/verified, and arranged/directed all disposals of fixed assets.

FISCAL INFORMATION TECHNOLOGY [16]

Non-essential personnel had access to the computer room, and passwords were not required to be changed at regular time intervals for a certain application system.

TRUST FUNDS [17]

Trust fund administration required improvement. A review of ten trust funds disclosed that in one instance, a trust fund agreement was not on file, in three instances, the trust fund agreement was not approved by the chief fiscal officer or designee, and in one instance, the purpose of the trust fund agreement was incorrect. In addition, trust fund expenditures were not always properly approved. This is a repeat finding from the prior FISMA audit. A review of 20 trust fund expenditures disclosed that 11 expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

RECONCILIATIONS [19]

Certain reconciliations were not timely prepared and reviewed. A review of various reconciliations in December 2006, disclosed that accounts receivable, bank/State Controller's Office expense, investment, and the scholarship uncleared collections account reconciliations were not timely prepared and reviewed. This is a repeat finding from the prior FISMA audit. In addition, scholarship uncleared collections items were not timely resolved.

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.
- ▶ Operating 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 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 2005/06 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 January 2005 to September 2006. 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 operating 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 14, 2006. 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 control weaknesses were found at each of the three satellite cashiering areas visited.

The satellite cashiering locations reviewed included extended education, athletics, and housing.

Extended Education

The key to the file cabinet used as the cash drawer was left in the lock while the cashier was on break and the counter window remained open. In addition, credit card information was stored in unlocked file cabinets located in the office copy room, and the copy room door was kept unlocked for easy access to the copier.

State Administrative Manual (SAM) §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use at agencies that do not have a safe, vault, or money chest, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

Title 5 §42396.2 states that precautions should be taken to prevent the unauthorized access to or use of personal information retained by the California State University (CSU).

Code of Federal Regulations Title 16, Part 6, *Standards for Safeguarding Customer Information*, §314.3, effective May 23, 2002, states, in part, that one of the objectives of the Gramm-Leach-Bliley Act is to protect against any anticipated threats or hazards to the security or integrity of non-public personal information.

SAM §20050 states that internal accounting controls comprise the methods and procedures directly associated with safeguarding assets.

The extension coordinator stated that inadequate security over cash receipts and credit card information was due to oversight. He further stated that cash handling procedures included locking the cash drawer and closing the counter window during breaks; however, there was a lack of cross training when the primary cash handler was out of the office. He added that personnel in extended education were unaware of the confidential personal data requirements as they related to credit card information.

Athletics

Cash and checks received not payable to the university were not logged.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments, not payable to the state agency, will be prelisted by the person opening the mail to localize accountability of these assets.

The business manager of athletics stated that athletics rarely received cash or checks not payable to Humboldt State University (HSU). She further stated that due to the rarity of these transactions, there was an oversight in communicating the required procedures.

Housing

Checks received not payable to housing were not endorsed before transferring to the proper payee.

SAM §8034.1 states that agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received. Timely endorsements serve to discourage the use of lost or stolen negotiable instruments by someone other than the state agency.

The manager of student financial services stated that satellite cashiering locations only had access to endorsement stamps for their own activity. She further stated that the campus procedure was to transport all cash and checks to student financial services via either armored car transport or police escort, and appropriate handling and endorsement occurred.

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

Recommendation 1

We recommend that the campus:

- a. Enforce cash handling procedures regarding locking the file cabinet used as a cash drawer and closing the counter window during breaks, and maintain credit card information only in locked file cabinets at extended education.
- b. Ensure that all cash and checks received not payable to the university are logged in athletics.
- c. Ensure that all checks received not payable to housing are endorsed before transfer to the proper payee.

Campus Response

A campus-wide cashiering policy is currently under revision to accommodate changes relating to the Revenue Management Program. The new policy will result in new procedures in the area of cash handling. The new policy and procedures will be complete and implemented by June 30, 2007. Interim procedures have been developed and circulated to the two satellite cashiering locations on campus: extended education and housing.

- a. We concur. Procedures are in place to ensure the safeguarding of cash and cash equivalents in the extended education department including locking of the cash drawer in the cashiers' absence; the procedures have been circulated to staff to ensure appropriate understanding. Additionally, to prevent unauthorized access to personal information obtained through credit card transactions, all credit card information is retained in a locked storage room with limited access.

- b. We concur. On January 1, 2006, the university moved the accounting function for the athletics department from an auxiliary organization into the university's financial services department. As a result, the athletics department is no longer a satellite cashiering location, revenue sources have been routed to the main cashiering station on campus, and the only revenue sources received in the department are event related. Additionally, in the event that cash or checks not payable to the university are received by mail, staff has been instructed to document the receipt on a prelist and forward a copy of the prelist with the cash or checks to the main cashiering station for disposition.
- c. We concur. Housing is a satellite cashiering location provided with an endorsement stamp only for that department. Procedures dictate, and staff has been instructed, in the event that cash or checks not payable to housing are received by mail, to document the receipt on a prelist and forward a copy of the prelist and cash or checks to the main cashiering station for disposition. Transfers from housing to the main cashiering station are made daily via armored transport to ensure safety.

Corrective action plan has been initiated and will be completed by June 30, 2007.

ACCOUNTS RECEIVABLE

COLLECTION LETTERS

Collection letters were not consistently employed in the pursuit of delinquent third-party accounts receivable.

Our review of 14 delinquent third-party receivables outstanding as of September 2006 disclosed that a series of three collection letters was not utilized in seven instances.

State University Administrative Manual §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls.

SAM §8776.6 states that once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

The manager of student financial services stated that the campus procedures for non-employee accounts receivable collections included sending 60-day and 90-day letters; however, letters were generated through the student financial services system, which failed and began producing letters at

incorrect intervals. She further stated that the error was detected and the letters stopped; however, due to staff shortages there were insufficient resources to produce the letters manually.

Less than maximum effort in the pursuit of delinquent accounts receivable 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 repair the student financial services system collection letter generation process or establish and implement an alternate method to produce collection letters for third-party accounts receivable.

Campus Response

We concur. Over the past year, collection efforts had not been applied consistently or timely. The university's collection policy includes sending three collection letters at 60, 90, and 120 days past due. To facilitate this process at the close of each month, the collection manager reviews a 60-day report generated by the student accounts receivable system "Banner." This report targets all activity with a date of 60 or greater. The collection manager maintains a list of all debtors that have received a 60-, 90-, or 120-day letter. Additionally, review procedures have been implemented to ensure that letters are generated and issued as delineated in the university's collection policy and procedures.

Corrective action plan has been implemented.

COST ALLOCATION PLAN

The campus cost allocation plan was not current.

We found that the campus was using the fiscal year 2003/04 cost allocation plan to calculate chargebacks to auxiliary enterprises.

Executive Order (EO) 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that auxiliary enterprises shall be charged the allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the General Fund. Costs allocations shall be determined in accordance with a written cost allocation plan approved annually by the campus chief financial officer (CFO).

The accounting manager stated that the campus allocation plan was not updated for fiscal year 2005/06 due to a period of unusually high turnover in the accounting department. He further stated that during that time the campus continued operations and billings to auxiliary enterprises based on the previous year's approved cost allocations formulas. He added that the absence of a current cost allocation plan was an oversight based on current operational needs of the accounting department personnel.

The absence of an approved cost allocation plan increases the risk that the General Fund is not fully compensated for support provided to auxiliary enterprises.

Recommendation 3

We recommend that the campus update its cost allocation plan, including CFO approval in advance of each fiscal year.

Campus Response

We concur. The university is currently in the process of updating information used in the preparation of a cost allocation plan. Procedures have been established to begin preparation of the annual cost allocation plan in January of each year to allow time to accumulate data, formulate the plan, and obtain approval prior to the beginning of the fiscal year.

Corrective action plan has been initiated and will be completed by July 31, 2007.

PURCHASING

Purchasing and contracting activities were not properly delegated.

We found that the director of contracts, procurement and risk management did not have a written delegation of authority from the campus president to approve purchases and contracts. The current delegation listed the previous incumbent and also included the previous director of fiscal affairs.

EO 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, delegates the authority to each campus president or designee to acquire personal property and services including information technology resources goods and services where applicable provisions of *The California State University Policy Manual for Contracting and Procurement*, issued and maintained by the Office of the Chancellor, have been followed.

The director of contracts, procurement and risk management stated that he started in July 2006 and signed a delegation of authority letter; however, the letter was still being processed, signed, and approved by all the appropriate individuals.

Failure to maintain current formalized delegations of authority for all procurement activities increases the risk of unauthorized activities.

Recommendation 4

We recommend that the campus promptly complete an updated formalized delegation of authority for purchasing and contracting activities and implement procedures to maintain such delegation on a current basis.

Campus Response

We concur. The university has completed a formal delegation of authority for the director of contracts, procurement and risk management for purchasing and contracting activities. Additionally, the campus has implemented procedures to review annually delegations of authority documentation to ensure maintenance on a current basis.

Corrective action plan has been implemented.

CASH DISBURSEMENTS

VENDOR MASTER FILE

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Five accounts payable technicians had the ability to process payments as well as update the vendor master file within PeopleSoft.

SAM §8080.1 states that each state agency to establish and maintain 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 one 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 accounting manager stated that segregation of duties between accounts payable and maintenance of the vendor master file was not feasible due to campus size and budget constraints. He further stated that the campus had implemented a number of mitigating controls to ensure that access to the vendor master file was appropriate.

Failure to maintain adequate control over the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 5

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. To accomplish appropriate separation of duties, the campus has reviewed its procedures relating to cash disbursements and implemented the following changes:

Access to vendor file maintenance has been restricted utilizing user access restrictions within PeopleSoft. Accounts payable staff can initiate the creation of or change in a vendor file; however, the change renders the vendor unusable until approved. The approval process has been limited to accounting staff in a separate department. In addition to the user profile limitations, appropriate documentation and approvals are required prior to the approval of vendor file creation or modifications. Further, the ability to initiate the payment process has been limited to senior accounts payable staff. All other users are limited by user roles established in PeopleSoft.

Corrective action plan has been implemented.

LONG-OUTSTANDING CHECKS

Long-outstanding checks were not processed in a timely manner.

We reviewed the most recent list of outstanding checks for October 2006 and noted 99 checks older than one year totaling \$15,421 dated between September 2004 and August 2005.

SAM §8042 states that checks have a one-year period of negotiability, unless specific provisions of law require cancellation in a different period of time. Further, agencies will send a stop payment request form to the State Treasurer's Office (STO) for all uncashed checks timed to arrive at least one week prior to the end of the one-year period of negotiability. Upon confirmation from the STO of stop payment request for uncashed checks, agencies will cancel the checks and remit the amount to an escheat revenue account in the fund from which the checks were drawn.

The accounting manager stated that the campus incurred an unusually high rate of employee turnover in the accounting department; as a result, the disposition process for old outstanding checks was overlooked. He further stated that the outstanding checklist was reviewed as bank reconciliations were completed, stop payments were processed, and the staff was currently reviewing the escheatment process for disposition of the checks.

Failure to process long-outstanding checks increases the risk of misappropriation and requires additional effort to review outstanding checks during the reconciliation process.

Recommendation 6

We recommend that the campus promptly process the noted long-outstanding checks and strengthen procedures to ensure that future long-outstanding checks are processed in a timely manner.

Campus Response

We concur. Procedures have been developed and integrated into the monthly bank reconciliation process for the review, evaluation, and disposition of outstanding checks that have exceeded the period of negotiability. Additionally, monthly review of the bank reconciliation by the accounting manager includes reviewing the outstanding checklist for timely processing.

Corrective action plan has been initiated and will be completed by June 30, 2007.

PAYROLL AND PERSONNEL

Federal Form I-9, Employment Eligibility Verification, was not always timely completed and properly maintained.

Our review of ten new hire transactions disclosed that:

- ▶ In two instances, the Form I-9 was completed 11 and 12 business days after employment began and not within three business days as required.
- ▶ In four instances, the I-9 forms were prematurely discarded.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and non-citizens are required to complete Form I-9, Employment Eligibility Verification, at the time of hire, which is the actual beginning of employment. The act requires employers to examine evidence of identity and employment eligibility within three business days of the date employment begins.

CSU directive HR 2004-01, *Records Retention Guidelines for Employment-Related Records*, dated October 13, 2004, states that CSU campuses are responsible for maintaining I-9 forms for three years or one year after termination of employment, whichever is longer.

The director of human resources stated that the delay in completion of the I-9 forms was due to oversight and complications with employee situations. She further stated that campus policy required a completed I-9 form be on file for each employee; however, the premature disposal of I-9 forms was due to a misinterpretation of retention requirements.

Untimely completion and improper maintenance of employment eligibility verification increases the risk of non-compliance with federal employment regulations.

Recommendation 7

We recommend that the campus strengthen personnel procedures to ensure timely completion and proper maintenance of Form I-9.

Campus Response

We concur. Form I-9 processing guidelines were developed in the human resources department to ensure data is received in a timely manner and properly maintained. The guidelines include the use of an “incomplete information” form to document data requests and facilitate follow-up of incomplete information. Additionally, staff has been required to read the *U.S. Department of Justice Handbook for Employers Instructions for Completing Form I-9*.

Corrective action plan has been implemented.

FIXED ASSETS

HOME USE PERMITS

Home use permits were not utilized to document the employee’s acceptance of responsibility for the off-campus use of campus equipment.

The *HSU Property Manual* states that heads may authorize off-campus use of property within their assigned programs for university business. In such cases, it is the department head’s responsibility to account for the property through appropriate checkout procedures. The employee or student taking possession of the property should provide a signed, dated receipt to the department. The receipt should be held as the department’s record of asset location until the item is returned.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

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

The associate vice president of business services stated that campus policy required that each department maintain a record of equipment assigned to faculty/staff and checked out to students, but the method of recording the information had been left to the individual departments. However, she added that the campus did not require home use permits as currently recommended by the chancellor’s office.

Failure to utilize home use permits increases the risk of unauthorized use and loss of state property.

Recommendation 8

We recommend that the campus implement the use of home use permits for off-campus use of university equipment.

Campus Response

We concur. The university has supplemented fixed asset procedures to require the completion of a home use permit by any faculty, staff, or student that takes possession of state property for use off-campus. Further, home use permits will be maintained centrally within the financial services department.

Corrective action plan has been initiated and will be completed by June 30, 2007.

PHYSICAL INVENTORY

Duties and responsibilities related to the performance of physical inventory were not properly segregated.

The property clerk performed physical inventory without any assistance or verification from another individual. In addition, he notified the department of any missing property and requested the department to complete a property survey report, which he then processed and approved/verified. Further, the property clerk arranged and directed all disposals of fixed assets.

SAM §8652 states that inventories will not be exclusively controlled by the custodian of the property records.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

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

The associate vice president of business services stated that physical inventories were not performed by two individuals due to limited manpower.

Inadequate segregation of duties over assets increases the risk of errors, irregularities, and misappropriation.

Recommendation 9

We recommend that the campus review fixed asset duties and take appropriate action to either segregate incompatible duties or establish effective mitigating controls.

Campus Response

The university is in the process of moving property management and fixed asset maintenance from the plant operations department into the business services department. Retirement of the property clerk position in plant operations and recruitment of an accountant position in business services will accommodate the move. Among other duties, the accountant will ensure compliance with established internal control procedures relating to fixed assets.

We concur. To facilitate appropriate internal controls, procedures have been modified to require two individuals be involved in the performance of physical inventories.

Corrective action plan has been initiated and will be completed by June 30, 2007.

FISCAL INFORMATION TECHNOLOGY

COMPUTER ROOM ACCESS

Non-essential personnel had access to the computer room.

SAM §4842.2 requires each state agency to establish and maintain physical security measures that provide for management control of physical access to information assets. Physical security practices for each facility must be adequate to protect the most sensitive information technology application housed in that facility.

The manager of telecommunications and network services stated that the list had not been reviewed in a while and that some people no longer required access.

Failure to limit access to the computer room to essential personnel increases the risk of accidental or malicious damage or theft to equipment and data that is essential to the continued operation of the campus.

Recommendation 10

We recommend that the campus restrict non-essential personnel from having access to the computer room.

Campus Response

We concur. The university restricts access to sensitive information technology applications by use of security card access to the computer room. To ensure compliance with existing policy, the manager of telecommunications has implemented procedures to include a monthly review of computer room access.

Corrective action plan has been initiated and will be completed by June 30, 2007.

PASSWORD CONTROLS

Passwords were not required to be changed at regular time intervals for a certain application system.

SAM §4841 requires state agencies to provide for the proper use and protection of its information assets by establishing appropriate policies and procedures for preserving the integrity and security of automated files and databases.

The data base administrator of information technology services stated that some password controls that the campus did not consider to be as effective in preventing unauthorized access had not been activated.

The absence of comprehensive password controls increases the risk that passwords may be compromised and could lead to unauthorized or inappropriate access.

Recommendation 11

We recommend that the campus amend its password controls to require that passwords be changed regularly to ensure appropriate security of campus data.

Campus Response

We concur. The university has designed password controls for the “Banner” system. Procedures require users to change passwords at the end of each semester.

Corrective action plan has been initiated and will be completed by June 30, 2007.

TRUST FUNDS

TRUST FUND ADMINISTRATION

Trust fund administration required improvement.

Our review of ten trust funds disclosed that:

- ▶ In one instance, the trust did not have a *Humboldt State University Agreement for Establishment or Continuation of a Trust Fund Account*.
- ▶ In three instances, the trust fund agreement was not approved by the chief fiscal officer or designee.

- ▶ In one instance, the purpose of the trust fund agreement was incorrect as it was carried over from another trust agreement that did not have the same function.

SAM §19940.1 requires that each trust account established shall be supported by documentation as to the type of trust, donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on the use of monies for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

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

The associate vice president of business services stated that due to staffing turnover in the accounting department, a review of trust documents for accuracy was overlooked.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss.

Recommendation 12

We recommend that the campus strengthen procedures to ensure complete trust fund documentation is maintained on file.

Campus Response

We concur. The university has developed procedures for annual review of all trust agreements to ensure complete trust fund documentation is maintained. Business services is conducting reviews of all trust agreements.

Corrective action plan has been initiated and will be completed by June 30, 2007.

TRUST EXPENDITURES

Trust fund expenditures were not always properly approved. This is a repeat finding from the prior FISMA audit.

Our review of 20 trust fund expenditures dated between June 2006 and September 2006 disclosed that 11 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 associate vice president of business services stated that the lack of appropriate approvals on expenditure authorizations from trust funds was due to an oversight in training.

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

Recommendation 13

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

Campus Response

We concur. The accounting department and contracts and procurement are working together to develop procedures to ensure that trust fund expenditures are properly approved. The procedures will include appropriate training of staff.

Corrective action plan has been initiated and will be completed by June 30, 2007.

RECONCILIATIONS

Certain reconciliations were not timely prepared and reviewed.

During our review of various reconciliations in December 2006, we noted that:

- ▶ The July and August accounts receivable reconciliations were prepared 13 and 6 days late. In addition, the July, August, and September accounts receivable reconciliations were reviewed 13, 22, and 22 days late, respectively.
- ▶ The July and August bank/State Controller's Office (SCO) expense reconciliations were prepared 8 and 21 days late. In addition, the July, August, and September Bank/SCO expense reconciliations were reviewed 11, 19, and 27 days late, respectively. This is a repeat finding from the prior FISMA audit.
- ▶ The July, August, and September investment reconciliations were prepared 14, 17, and 21 days late, respectively. In addition, the July, August, and September investment reconciliations were reviewed 18, 47, and 27 days late, respectively. This is a repeat finding from the prior FISMA audit.
- ▶ The September scholarship uncleared collections account reconciliation was prepared 28 days late, and uncleared collections items were not timely resolved. The total amount past 90 days old was \$18,835.

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

SAM §7901 states that all reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

SAM §7920 requires a reconciliation of two or more accounts or other record kept by an agency such as reconciliation of office revolving fund assets to the amount withdrawn. Further, each agency is responsible to complete any reconciliation necessary to safeguard the state's assets and ensure reliable financial data.

SAM §7923 requires departments reconcile their end-of-the-month bank and centralized State Treasury system account balances monthly.

SAM §8060 states that all bank and centralized State Treasury system accounts will be reconciled promptly at the end of each month.

SAM §10508 states that varying circumstances determine the clearance of uncleared collections and that items should be cleared at least once each quarter.

The accounting manager stated that the delays in preparation of the reconciliations and resolution of uncleared collections items were due to an unusually high rate of employee turnover in the accounting department and the shifting focus to participation in the fiscal year ended June 30, 2006, annual GAAP audit and financial statement preparation.

Untimely and incomplete reconciliations and inadequate control over uncleared collections limits the campus' ability to detect errors and irregularities, compromises accountability, and may delay proper revenue recognition.

Recommendation 14

We recommend that the campus strengthen procedures to ensure that the accounts receivable, bank/SCO expense, investments, and uncleared collections reconciliations are prepared in a timely manner, and uncleared collections items are promptly resolved.

Campus Response

We concur. The university has strengthened procedures relating to monthly reconciliations to ensure timely completion and review. Additionally, procedures are in place to ensure the resolution of reconciling items is accomplished in a timely manner.

Corrective action plan has been initiated and will be completed by June 30, 2007.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Rollin C. Richmond	President
Patty Ambrosini	Payroll Officer
Joyce Baltierra	Procurement Analyst
Bugs Brouillard	System Administrator
David Bugbee	Director, Contracts, Procurement and Risk Management
Michael Burghart	Accountant
Deborah Bushnell	Administrative Support Coordinator, Financial Services
Carl Coffey	Vice President, Administrative Affairs
Nick DeRuyter	Manager, Policy and Planning, Information Technology Services
Gail Finney	Senior Accounting Technician
Mary Fischer	Director, Human Resources
Allison Freeman	Lead Cashier
Rick Garcia	Manager, Telecommunications and Network Services
Ed Goodeyon	Manager, Custodial Services
Katherine Granfield	Analyst/Programmer
Carl Hansen	Extension Coordinator
Jason Hardin	Analyst/Programmer
Ben Hylton	Accounting Manager
Peter Johnson	Data Base Administrator
Beth Kabat	Light Equipment Operator, Distribution Services
Anna Kircher	Chief Information Officer, Information Technology Services
Mary Ann McCulloch	Manager, Student Financial Services
Paul Meyer	Property Clerk
Justin Pabalate	Cashier, Housing
Lynne Sandstrom	Senior Accountant
Laurie Sheppard	Business Manager, Athletics
Carol Terry	Associate Vice President, Business Services
Ken Thrift	Data Base Administrator, Information Technology Services
Ron Titus	Light Equipment Operator, Distribution Services
Sandra Wieckowski	Accountant II

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.



HUMBOLDT STATE UNIVERSITY

Vice President for Administrative Affairs

June 1, 2007

RECEIVED
UNIVERSITY AUDITOR

JUN - 1 2007

THE CALIFORNIA STATE
UNIVERSITY

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

Subject: FISMA Audit Report Number 06-09

Dear ^{LARRY}~~Mr.~~ Mandel:

Please find enclosed Humboldt State University's response to FISMA Audit Report Number 06-09, 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.

Please direct questions regarding the responses to Lynne Sandstrom, CPA, Financial Services at (707) 826-4031 or les37@humboldt.edu.

Sincerely,

Carl Coffey
Vice President Administrative Affairs

Cc: Rollin C. Richmond, President (w/o enclosures)
Carol Terry, Associate Vice President of Business Services (w/o enclosures)

FISMA
HUMBOLDT STATE UNIVERSITY

Audit Report 06-09
April 4, 2007

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Enforce cash handling procedures regarding locking the file cabinet used as a cash drawer and closing the counter window during breaks, and maintain credit card information only in locked file cabinets at extended education.
- b. Ensure that all cash and checks received not payable to the university are logged in athletics.
- c. Ensure that all checks received not payable to housing are endorsed before transfer to the proper payee.

Campus Response

A campus-wide cashiering policy is currently under revision to accommodate changes relating to RMP. The new policy will result in new procedures in the area of cash handling. The new policy and procedures will be complete and implemented by June 30, 2007. Interim procedures have been developed and circulated to the two satellite cashiering locations on campus: Extended Education and Housing.

1a) We concur. Procedures are in place to ensure the safeguarding of cash and cash equivalents in the Extended Education Department including locking of the cash drawer in the cashiers' absence, the procedures have been circulated to staff to ensure appropriate understanding. Additionally, to prevent unauthorized access to personal information obtained through credit card transactions all credit card information is retained in a locked storage room with limited access.

1b) We concur. On January 1, 2006, the University moved the accounting function for the Athletics Department from an auxiliary organization into the University's Financial Services Department. As a result, the Athletics Department is no longer a satellite cashiering location, revenue sources have been routed to the main cashiering station on campus the only revenue sources received in the department are event related. Additionally, in the event that cash or checks not payable to the University are received by mail, staff has been instructed to document the receipt on a "prelist" and forward a copy of the prelist with the cash or checks to the main cashiering station for disposition.

1c) We concur. Housing is a satellite cashiering location provided with an endorsement stamp only for that department. Procedures dictate, and staff has been instructed, in the event that cash or

checks not payable to Housing are received by mail, to document the receipt on a “prelist” and forward a copy of the prelist and cash or checks to the main cashiering station for disposition. Transfers from Housing to the main cashiering station are made daily via armored transport to ensure safety.

Corrective action plan has been initiated and will be complete by June 30, 2007.

ACCOUNTS RECEIVABLE

COLLECTION LETTERS

Recommendation 2

We recommend that the campus repair the student financial services system collection letter generation process or establish and implement an alternate method to produce collection letters for third-party accounts receivable.

Campus Response

2) We concur. Over the past year, collection efforts had not been applied consistently or timely. The University's collection policy includes sending three collection letters at 60, 90 and 120 days past due. To facilitate this process at the close of each month the Collection Manager reviews a 60-Day Report generated by the student accounts receivable system "Banner" this report targets all activity with a date of 60 or greater. The Collection Manager maintains a list of all debtors that have received a 60, 90 or 120 letter. Additionally, review procedures have been implemented to ensure that letters are generated and issued as delineated in the University's collection policy and procedures.

Corrective action plan has been implemented.

COST ALLOCATION PLAN

Recommendation 3

We recommend that the campus update its cost allocation plan, including CFO approval in advance of each fiscal year.

Campus Response

3) We concur. The University is currently in the process of updating information used in the preparation of a cost allocation plan. Procedures have been established to begin preparation of the annual cost allocation plan in January of each year to allow time to accumulate data, formulate the plan and obtain approval prior to the beginning of the fiscal year.

Corrective action plan has been initiated and will be complete by July 31, 2007.

PURCHASING

Recommendation 4

We recommend that the campus promptly complete an updated formalized delegation of authority for purchasing and contracting activities and implement procedures to maintain such delegation on a current basis.

Campus Response

4) We concur. The University has completed a formal delegation of authority for the Director of contracts, procurements and risk management for purchasing and contracting activities. Additionally, the campus has implemented procedures to review annually delegations of authority documentation to ensure maintenance on a current basis.

Corrective action plan has been implemented.

CASH DISBURSEMENTS

VENDOR MASTER FILE

Recommendation 5

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

Campus Response

5) We concur. To accomplish appropriate separation of duties the campus has reviewed its procedures relating to cash disbursements and implemented the following changes.

Access to vendor file maintenance has been restricted utilizing user access restrictions within PeopleSoft. Accounts payable staff can initiate the creation of, or change in, a vendor file; however, the change renders the vendor unusable until approved. The approval process has been limited to accounting staff in a separate department. In addition to the user profile limitations appropriate documentation and approvals are required prior to the approval of vendor file creation or modifications.

Further, the ability to initiate the payment process has been limited to senior accounts payable staff. All other users are limited by user roles established in PeopleSoft.

Corrective action plan has been implemented.

LONG-OUTSTANDING CHECKS

Recommendation 6

We recommend that the campus promptly process the noted long-outstanding checks and strengthen procedures to ensure that future long-outstanding checks are processed in a timely manner.

Campus Response

6) We concur. Procedures have been developed and integrated into the monthly bank reconciliation process for the review, evaluation and disposition of outstanding checks that have exceeded the period of negotiability. Additionally, monthly review of the bank reconciliation by the Accounting Manager includes reviewing the outstanding checklist for timely processing.

Corrective action plan has been initiated and will be complete by June 30, 2007.

PAYROLL AND PERSONNEL

Recommendation 7

We recommend that the campus strengthen personnel procedures to ensure timely completion and proper maintenance of Form I-9.

Campus Response

7) We concur. Form I-9 processing guidelines were developed in the Human Resources Department to ensure data is received in a timely manner and properly maintained. The guidelines include the use of an "Incomplete Information" form to document data requests and facilitate follow-up of incomplete information. Additionally, staff has been required to read the U.S Department of Justice Handbook for Employers Instructions for Completing Form I-9.

Corrective action plan has been implemented.

FIXED ASSETS

HOME USE PERMITS

Recommendation 8

We recommend that the campus implement the use of home use permits for off-campus use of university equipment.

Campus Response

8) We concur. The University has supplemented fixed asset procedures to require the completion of a home use permit by any faculty, staff or student that takes possession of state property for use off campus. Further, home use permits will be maintained centrally within the Financial Services Department.

Corrective action plan has been initiated and will be complete by June 30, 2007.

PHYSICAL INVENTORY

Recommendation 9

We recommend that the campus review fixed asset duties and take appropriate action to either segregate incompatible duties or establish effective mitigating controls.

Campus Response

The University is in the process of moving property management and fixed asset maintenance from the Plant Operations Department into the Business Services Department. Retirement of the property clerk position in plant operations and recruitment of an accountant position in Business Services will accommodate the move. Among other duties, the accountant will ensure compliance with established internal control procedures relating to fixed assets.

9) We concur. To facilitate appropriate internal controls, procedures have been modified to require two individuals be involved in the performance of physical inventories.

Corrective action plan has been initiated and will be complete by June 30, 2007.

FISCAL INFORMATION TECHNOLOGY

COMPUTER ROOM ACCESS

Recommendation 10

We recommend that the campus restrict non-essential personnel from having access to the computer room.

Campus Response

10) We concur. The University restricts access to sensitive information technology applications by use of security card access to the computer room. To ensure compliance with existing policy, the manager of telecommunications has implemented procedures to include monthly review of computer room access.

Corrective action plan has been initiated and will be complete by June 30, 2007.

PASSWORD CONTROLS

Recommendation 11

We recommend that the campus amend its password controls to require that passwords be changed regularly to ensure appropriate security of campus data.

Campus Response

11) We concur. The University has designed password controls for the "banner" system. Procedures require users to change passwords at the end of each semester.

Corrective action plan has been initiated and will be complete by June 30, 2007.

TRUST FUNDS

TRUST FUND ADMINISTRATION

Recommendation 12

We recommend that the campus strengthen procedures to ensure complete trust fund documentation is maintained on file.

Campus Response

12) We concur. The University has developed procedures for annual review of all trust agreements to ensure complete trust fund documentation is maintained. Business Services are conducting review of all trust agreements.

Corrective action plan has been initiated and will be complete by June 30, 2007.

TRUST EXPENDITURES

Recommendation 13

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

Campus Response

13) We concur. The Accounting Department and Contracts and Procurements are working together to developed procedures to ensure that trust fund expenditures are properly approved. The procedures will include appropriate training of staff.

Corrective action plan has been initiated and will be completed by June 30, 2007.

RECONCILIATIONS

Recommendation 14

We recommend that the campus strengthen procedures to ensure that the accounts receivable, bank/SCO expense, investments, and uncleared collections reconciliations are prepared in a timely manner, and uncleared collections items are promptly resolved.

Campus Response

14) We concur. The University has strengthened procedures relating to monthly reconciliations to ensure timely completion and review. Additionally, procedures are in place to ensure the resolution of reconciling items is accomplished in a timely manner.

Corrective action plan has been initiated and will be completed by June 30, 2007.



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 20, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

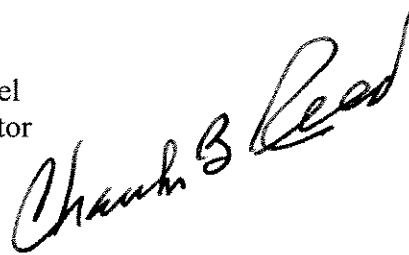
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 06-09 on *FISMA*,
Humboldt State University

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of June 20, 2007, I accept the response as submitted with the draft final report on *FISMA*, Humboldt State University.

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Carl Coffey, Vice President, Administrative Affairs
Dr. Rollin C. Richmond, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS