

**FISMA**

**SAN FRANCISCO STATE UNIVERSITY**

**Audit Report 07-02  
July 19, 2007**

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## **ABBREVIATIONS**

CEL	College of Extended Learning
CSU	California State University
CTO	Compensatory Time Off
DoIT	Division of Information Technology
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SCO	State Controller's Office
SFCMP	San Francisco Campus
SFRSP	San Francisco Research and Sponsored Projects
SFSU	San Francisco State University
SUAM	State University Administrative Manual

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## 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.

San Francisco State University (SFSU) 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 SFSU campus from February 5, 2007, through April 6, 2007, and made a study and evaluation of the accounting and administrative control in effect as of April 6, 2007. 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, operating fund, payroll and personnel, and fiscal information technology. 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, SFSU's accounting and administrative control in effect as of April 6, 2007, 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 two of the three satellite cashiering areas visited. The transfer of funds between locations within the College of Extended Learning (CEL) was not adequately controlled. In addition, the CEL did not maintain a written record of individuals with knowledge of the safe combination and the date when the combination was last changed, and parking and transportation safe access records were not current and complete.

### **ACCOUNTS RECEIVABLE [7]**

Delinquent payroll accounts receivable were not adequately pursued to ensure timely collection. A review of 20 employee accounts receivable disclosed that collection letters were not timely and consistently sent in seven instances. Additionally, in four instances, collection balances were not submitted to the Franchise Tax Board for tax offset in a timely manner, and in one instance, the campus did not provide documented collection activity or evidence of employee follow-up on an outstanding balance from March 2006.

### **PURCHASING [8]**

Open purchase orders were not always timely investigated and resolved. A review of the campus open commitment report as of April 5, 2007, showed 60 open purchase orders from 2004 and 2005 with unspent encumbrances of \$656,891. Further, a review of the contracts and grants open purchase order report as of March 14, 2007, showed 225 open purchase orders from 2004 with unspent encumbrances totaling \$363,789.

### **OPERATING FUND [10]**

Salary advances and “in-lieu” checks that were furnished to employees in place of their regular salary warrants were not timely recovered and collection activity was not always documented. In three instances, employees stated that the “in-lieu” checks totaling \$2,515 were never received, and the campus had yet to receive replacement checks from the State Controller’s Office (SCO). This is a repeat finding from the prior FISMA audit. One salary advance totaling \$3,765 was not cleared within 60 days, and the campus could not provide evidence of follow-up collection activity. Finally, one employee with two “in-lieu” check requests for a combined total of \$1,017 dated March 15, 2006, had not fully cleared the advance as of the audit date.

## **PAYROLL AND PERSONNEL [11]**

Undelivered salary warrants were not always remitted to the SCO for final escheatment. Twelve undelivered salary warrants totaling \$10,189 were on hand more than 90 days and had not been remitted to the SCO as of the audit date. Duties and responsibilities related to the processing of payroll transactions and the distribution of payroll warrants were not always adequately segregated. In addition, separation documentation was not always completed, and the campus electronic employee separation clearance procedures did not ensure complete clearance documentation. A review of 13 employee separations showed five instances where payroll transaction forms on file were not properly authorized, four instances where supporting evidence of the employees' final wages was not on file, and insufficient clearance documentation in all seven instances where the electronic clearance procedures were followed. Lastly, vacation and compensatory time off (CTO) accrual adjustments were not always adequately controlled, resulting in the carryover of additional vacation leave and inaccurate CTO accrual records.

## **FISCAL INFORMATION TECHNOLOGY [15]**

Passwords used as personal access codes were not required to be changed at regular time intervals and did not meet established password syntax standards. In addition, the information security process had not conducted a survey to identify sensitive data that may be collected and used by all departments, and the campus did not encrypt some sensitive personal information stored on the financial aid system.

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## 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 July 1, 2005, to December 31, 2006. Our primary focus was on internal controls. Specifically, we reviewed and tested:

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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 April 6, 2007. 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.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

Cash control weaknesses were found at two of the three satellite cashiering areas visited.

The satellite locations reviewed included housing and residential services, the College of Extended Learning (CEL), and parking and transportation.

#### **Transfer of Funds**

The transfer of funds between locations within the CEL was not adequately controlled.

We found that receipts at the downtown location were transferred to the Lakeview Center for batching and deposit via a third-party courier service in an unsecured box. Additionally, these receipts were transferred without the use of transfer receipts.

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

SAM §8021 requires 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 its receipt to its deposit.

The CEL director of enrollment services stated that the CEL moved to a new location in January and had just begun to work with university staff in analyzing and evaluating its business processes at this new location when the audit commenced.

#### **Safe Access Records**

- ▶ The CEL did not maintain a written record of individuals with knowledge of the safe combination and the date when the combination was last changed.
- ▶ Parking and transportation safe access records were not current and complete. The records included two employees that no longer possessed knowledge of the safe combination and lacked the date the combination was last changed.

SAM §8024 requires the campus to retain a record listing the names of persons knowing the present safe combination and the date the combination was last changed, and to change the safe combination when employees leave a department.

The CEL director of enrollment services stated that not maintaining a record of individuals with access to the safe was an oversight. The chief of the university police department stated that it was an oversight that parking and transportation safe access records were not current and complete.

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

**Recommendation 1**

We recommend that the campus:

- a. Ensure that CEL receipts are adequately secured when transferred between locations and implement the use of transfer receipts.
- b. Maintain updated written records of individuals with safe access knowledge and the date the combination was last changed at the CEL and parking and transportation.

**Campus Response**

We concur.

- a. The CEL and the bursar's office have arranged for CEL to utilize the university's cash-in-transit courier service to securely transfer cash receipts from the CEL downtown center to the university bursar's office, which includes the use of transfer receipts.
- b. The CEL and parking and transportation have updated their records to show the date the safe combination was last changed and the individuals who have knowledge of the combination.

**ACCOUNTS RECEIVABLE**

Delinquent payroll accounts receivable were not adequately pursued to ensure timely collection.

We reviewed 20 employee accounts receivable dated from January 1, 2005, to December 31, 2006, and found that:

- ▶ Collection letters were not timely and consistently sent for seven of the outstanding payroll receivables.
- ▶ In four instances, collection balances were not submitted to the Franchise Tax Board for tax offset in a timely manner. The balances were outstanding from December 2005 to May 2006 and were not submitted until February 2007.
- ▶ In one instance, the campus did not provide documented collection activity or evidence of employee follow-up on an outstanding balance totaling \$1,160 and dated March 2, 2006. Insufficient collection activity prevented submission of the balance to the Franchise Tax Board for tax offset.

Government Code §19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from office operating fund salary and travel advances and payroll warrants issued by the State Controller's Office (SCO).

SAM §8776.6 and §8776.7 provide collection procedures to be employed in the collection of amounts due from employees.

SAM §8790.3 states that offset is normally made only after giving notice to the debtor and providing him/her an opportunity to present any valid objection he/she may have to the use of the offset procedure.

The payroll manager stated that collection efforts for employee receivables were not always performed timely due to turnover or changes in payroll office staff and an increase in the volume of payroll transactions processed.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk that the receivables will not be properly reflected in campus financial statements.

### **Recommendation 2**

We recommend that the campus strengthen procedures to ensure that payroll accounts receivable are promptly pursued through the use of collection letters and tax offset.

### **Campus Response**

We concur. Procedures will be strengthened to ensure that payroll receivables are pursued through the use of collection letters and tax offset.

Expected completion date: November 2007

## **PURCHASING**

Open purchase orders were not always timely investigated and resolved.

Our review of the campus open commitment report as of April 5, 2007, disclosed 60 open purchase orders from 2004 and 2005 with unspent encumbrances of \$656,891. Additionally, we reviewed the contracts and grants open purchase order report as of March 14, 2007, and noted 225 open purchase orders from 2004 with unspent encumbrances totaling \$363,789.

SAM §8340 states that as expenditures are recorded on claims, amounts will be posted to reduce the related encumbrance amount. For partial orders, many automated systems will liquidate the encumbrance for the same amount as the expenditure. However, if it is determined that encumbrance amounts are materially misstated, either over or underestimated, adjustments will be recorded to more

accurately reflect the expected expenditure. The encumbrance is fully liquidated when the order is fully satisfied. Estimated decreases will be recorded as a minus amount. This will decrease the unliquidated encumbrance amount and increase the unencumbered balance.

SAM §8422.20 states the agency shall develop procedures to follow-up on open purchase documents/contracts to determine whether all goods and services ordered are actually received.

The director of procurement stated that employee turnover and temporary loss of the designated position responsible for closing long-outstanding purchase orders limited the campus' ability to investigate and resolve open purchase orders in a timely manner.

Failure to investigate and resolve long-outstanding encumbered purchase orders could impair budget analysis and planning and result in less than optimal decision making.

### **Recommendation 3**

We recommend that the campus strengthen monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

### **Campus Response**

We concur. The purchasing department will initiate a quarterly review of open purchase orders. Starting September 30, 2007, the department will send a memo to campus units requesting they review their open commitment reports. Unless purchasing receives a request to the contrary by the beginning of the following month, all open orders showing no activity within the preceding 12-month period will be closed. For example, purchasing will issue a review request on September 30, 2007. As of October 31, 2007, the department will close all purchase orders that have had no activity since September 30, 2006, unless a campus unit specifically requests the orders remain open. The next review memo will be issued December 31, 2007, and as of January 31, 2008, purchasing will close all purchase orders with no activity since December 31, 2006, unless otherwise notified. The quarterly review will be an ongoing business process initiated and performed by the lead buyer and the procurement systems support analyst. The procedure will apply to business units SFCMP and SFRSP, except that in the SFRSP, business unit orders with a "C7" designation will not be automatically closed. These are sub-contracts related to grant activity. Purchasing will work with the office of research and sponsored projects to assess the status and action necessary for sub-contracts that have not shown activity within the preceding 12-month period.

Expected completion date: October 2007

## OPERATING FUND

Salary advances and “in-lieu” checks that were furnished to employees in place of their regular salary warrants were not timely recovered and collection activity was not always documented.

Our review of ten salary advances and “in-lieu” check requests issued between August 2004 and March 2006 disclosed that:

- ▶ In three instances, employees stated that the “in-lieu” checks totaling \$2,515 were never received. The receivables were established as “in-lieu” check requests and the campus had yet to receive replacement checks from the SCO. Consequently, the accounting records reflected outstanding receivable balances for each employee. This is a repeat finding from the prior Financial Integrity and State Manager’s Accountability Act audit.
- ▶ One salary advance totaling \$3,765 was not cleared within 60 days and the campus could not provide evidence of follow-up collection activity.
- ▶ One employee with two “in-lieu” check requests for a combined total of \$1,017 dated March 15, 2006, had not fully cleared the advance as of our audit date.

Government Code §19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from office operating fund salary and travel advances and payroll warrants issued by the SCO.

State University Administrative Manual (SUAM) §3813 indicates that salary advances to employees should be collected when a corrected or delayed warrant for the pay period involved is received, with the time period for recovery of salary advances not to exceed 60 days.

SAM §8776.7 provides collection procedures to be employed in the collection of amounts due from employees.

The payroll manager stated that salary advances were not cleared timely because the payroll office had to wait for payments to be reissued from the escheat account to clear the salary advances or “in-lieu” checks. She further stated clearance was affected by turnover in the disbursement unit not providing internal lists of stale checks or checks that had not been picked up by employees to the payroll technicians.

Insufficient control over salary advances and “in-lieu” check requests increases the risk that monies may not be available, and reduces the likelihood of collection.

### **Recommendation 4**

We recommend that the campus strengthen procedures to improve the timely recovery of salary advances and “in-lieu” check requests.

**Campus Response**

We concur. As of June 2007, the campus no longer issues salary advances. In addition, recovery procedures over “in-lieu” checks will be strengthened.

Expected completion date: November 2007

**PAYROLL AND PERSONNEL**

**UNDELIVERED SALARY WARRANTS**

Undelivered salary warrants were not always timely remitted to the SCO for final escheatment.

We found that 12 undelivered salary warrants totaling \$10,189 were on hand more than 90 days (97 to 293 days after the check date) and had not been remitted to the SCO as of our review in March 2007.

SAM §8580.5 states that salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll office. Warrants not delivered within 90 calendar days of receipt must be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund. Agencies will maintain a subsidiary ledger of all amounts credited to and disbursed from the escheat revenue accounts.

The controller of fiscal affairs stated that the delay was primarily due to campus departments not returning undelivered salary warrants to the disbursement office timely.

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

**Recommendation 5**

We recommend that the campus strengthen its procedures to ensure that undelivered salary warrants are properly handled and timely remitted to the SCO when required.

**Campus Response**

As a matter of current procedures, during the monthly payroll distribution process, all campus payroll representatives/coordinators already receive an e-mail memo reminding each about the importance of returning any undeliverable salary warrants within five days to the disbursement office. To further strengthen the return of undeliverable salary warrant procedures, a joint memo will be issued by the university controller, the accounts payable and collections manager, and the payroll manager reiterating to all campus department payroll representatives/coordinators their responsibilities in returning any undeliverable salary warrants within five days of disbursement; and if the same individual/s continue to disregard these procedures, the university controller, the accounts payable

and collections manager, and the payroll manager will request the dean/director and/or manager of the campus department to appoint/replace the individual. This new procedure will be implemented by October 2007.

## **SEGREGATION OF DUTIES**

Duties and responsibilities related to the processing of payroll transactions and the distribution of payroll warrants were not always adequately segregated.

The payroll department was responsible for processing payroll transactions, determining the disposition of undelivered salary warrants, and distributing payroll warrants that were on hand greater than 90 days to the employee. Payroll department practices included retrieval of the undelivered salary warrant from the disbursement office and delivering it to the employee through an alternative means of distribution (i.e. United States Postal Service).

SUAM §3812 states that none of the personnel assigned to the payroll office and none of the staff authorized by the appointing power to prepare payroll transactions and certify attendance reports shall be authorized to receive and distribute salary warrants.

The payroll manager stated that since the stale dated warrants were still available, they were retrieved to clear outstanding “in-lieu” checks, account receivables, and for employee pickup.

Inadequate segregation of duties over the processing of payroll transactions and the handling of payroll warrants increases the risk of irregularities.

### **Recommendation 6**

We recommend that the campus review payroll activities and take appropriate action to either segregate incompatible duties and responsibilities or establish mitigating controls.

### **Campus Response**

We concur. As of June 2007, the payroll department no longer retrieves or distributes undelivered salary warrants. The campus is in the process of formalizing the procedures.

Expected completion date: November 2007

## EMPLOYEE SEPARATION

Separation documentation was not always completed, and the campus electronic employee separation clearance procedures did not ensure complete clearance documentation.

Our review of 13 employee separations dated between August 2005 and December 2006 disclosed that:

- ▶ In five instances, payroll transaction forms on file were not properly authorized (signed and dated).
- ▶ In four instances, supporting evidence of the employees' final wages including leave payout calculations was not on file.
- ▶ In all seven instances where the electronic clearance procedures were followed, the signature clearance documentation was insufficient. For example, the electronic clearance procedures did not ascertain whether the documentation supported the employees' clearance prior to their separation.
- ▶ In two instances where the electronic clearance procedures were followed, there was no evidence of clearance documentation on file.

The California State University (CSU) *Personnel/Payroll Management Information System User Manual* indicates that transactions keyed at the campus may be documented on any campus-generated form or report as long as there is an authorized signature on the document (under General Information in Transaction Overview).

The SCO *Personnel/Payroll Services Division Payroll Procedures Manual* requires an authorized signature certifying that the information on the payroll document is correct.

SAM §20050 states 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.

SAM §8580.4 describes the need for adequate separation procedures, including preparation of a clearance form that includes clearance of operating fund advances (travel and salary), return of keys, equipment, credit cards, etc.

The payroll manager stated that payroll transaction forms and leave payout calculations might have been misfiled, and the lack of clearance documentation for the two employees might be attributed to the fact that they were not adequately cleared prior to separation. The interim associate vice president of human resources, safety and risk management stated that when the campus changed from manual clearance procedures to the electronic clearance procedures all controls might not have been transferred over.

Insufficient control over employee separations increases the risk of loss of state funds and inappropriate use of state resources.

**Recommendation 7**

We recommend that the campus:

- a. Designate personnel to properly authorize (sign and date) personnel transactions.
- b. Strengthen controls to ensure that evidence of final wages including leave payout calculations is prepared and maintained on file.
- c. Establish procedures to ensure that the electronic clearance procedures adequately document the clearance of all employees prior to separation.

**Campus Response**

We concur.

- a. All payroll technicians have been authorized to sign and date personnel transactions. The campus is in the process of formalizing the procedure.

Expected completion date: November 2007

- b. As of July 2007, a form was created, put in use, and retained on file for the calculation of final wages that include leave payout.
- c. Procedures will be established that ensure that electronic clearance procedures are adequately documented for all employees prior to separation.

Expected completion date: November 2007

**VACATION AND COMPENSATORY TIME OFF ACCRUALS**

Vacation and compensatory time off (CTO) accrual adjustments were not always adequately controlled.

Our review of 20 employee year-end vacation accrual adjustments at January 1, 2007, and four employees with excess CTO accruals disclosed that:

- ▶ The vacation accrual balance for one employee in Bargaining Unit R9 with more than ten years of service was incorrectly rolled back to 440 hours instead of the 384-hour maximum. As a result, the employee was allowed to carryover an additional 56 hours of vacation.

- ▶ One employee that showed excess CTO received a payout in February 2004; however, the CTO records were not updated to reflect the payout. The CTO records revealed the employee had a remaining balance that exceeded the maximum by 50.5 hours.
- ▶ One employee that retired and received a payout in June 2005 showed a balance in excess of the maximum by 25 hours in April 2007. The CTO records were not updated to reflect the CTO payout.

The Collective Bargaining Agreement for the CSU Employees Union states that vacation credits are cumulative to a maximum of two hundred and seventy-two (272) working hours for ten (10) or less years of qualifying service or three hundred and eighty-four (384) working hours for more than ten (10) years of such service. Accumulation in excess of this amount as of January 1 of each year shall be forfeited by the employee.

The payroll manager stated that in the first instance cited, the employee changed bargaining units and an automated report picked up the wrong seniority date, which resulted in the error. She added that in the other two instances, the leave accounting balances were not updated due to oversight.

Inaccurate adjustment and maintenance of the accrued vacation and CTO may under or over compensate employees and expose the campus to increased liability.

### **Recommendation 8**

We recommend that the campus strengthen controls over the maintenance of accrued balances at separation and the year-end adjustment of vacation and CTO accruals.

### **Campus Response**

We concur. Controls over the maintenance of accrued balances at separation and the year-end adjustment of vacation and CTO accruals will be strengthened.

Expected completion date: November 2007

## **FISCAL INFORMATION TECHNOLOGY**

### **PASSWORD CONTROLS**

Passwords used as personal access codes were not required to be changed at regular time intervals and did not meet established password syntax standards.

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 executive director of the division of information technology (DoIT) stated that although password personal access codes were currently used for authentication, San Francisco State University had implemented a three-strikes policy to prevent unauthorized password cracking. She further stated that plans were underway for a campus portal system to meet or exceed industry standards for personal access code passwords.

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

### **Recommendation 9**

We recommend that the campus amend its password controls to require that passwords be changed periodically and adhere to established password syntax standards.

### **Campus Response**

We concur. The DoIT is currently pursuing a new authentication system that is part of the campus' portal project requiring strong and established password syntax standards. In addition, the portal will require the user to change the password as frequently as required by the most rigorous application. The plan for this is in the final stages and will commence in fall 2007.

## **INFORMATION SECURITY PROCEDURES**

The information security process had not conducted a survey to identify sensitive data that may be collected and used by all departments.

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 information security officer stated that although the campus had location records of sensitive data in the administrative systems areas, the information security position was relatively new and that a campus-wide security survey was on the list of tasks to be performed.

Security practices that do not ensure campus-wide protection of sensitive data increase the risk of unauthorized access to such data, and could compromise compliance with statutory information security requirements.

### **Recommendation 10**

We recommend that the campus conduct a survey of all departmental use and storage of sensitive data, and develop guidelines for campus departments to remove or protect any sensitive data found.

**Campus Response**

We concur. The DoIT will conduct a survey of all departmental use and storage of sensitive data and develop guidelines for campus departments to remove or protect any sensitive data found.

Expected completion date: January 2008

**ENCRYPTION OF SENSITIVE DATA**

The campus did not encrypt some sensitive personal information stored on the financial aid 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 associate vice president of the DoIT stated that the server for the financial aid system had been secure and placed behind campus firewalls to help minimize the likelihood of a system breach, but that not all files containing sensitive data had been encrypted. He further stated that data transfer was encrypted using Secure Sockets Layer protocol for any user accessing sensitive data; virtual private network was used for accessing administrative systems, applications and networks, and sensitive data was masked to the end user. He added that a firewall had been implemented to protect administrative systems and applications and networks, a host-based firewall (Transmission Control Protocol Wrapper) had also been implemented as an additional layer of access control and security, and the campus used comprehensive password controls.

Failure to encrypt sensitive personal information could require the campus to notify all affected individuals in the event of a breach of security and potentially damage CSU's reputation.

**Recommendation 11**

We recommend that campus encrypt sensitive personal information stored in the financial aid system as soon as possible.

**Campus Response**

We concur. The DoIT is currently analyzing the sensitive information stored in the financial aid system and is working on an encrypting solution. A design and plan will be completed by fall 2007 and implementation will commence in January 2008.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert A. Corrigan	President
Edwin Billiot	University Bursar
Bon Bitonio	Financial Reporting Officer
Julie Chan	Assistant Payroll Coordinator
David Chelliah	Supervisor, Loans and Fiscal Services
Richard Chen	Trust Accountant, Trust Fund and Special Projects Accounting
Vincent Cheung	Senior Accountant, Government Funds
Diana Chow	Supervisor, Fiscal Affairs Loans and Financial Services
Philippe Cumia	Associate Director, Housing and Residential Services
Elaine Feng	Director of Fiscal Services, College of Extended Learning (CEL)
Kirk Gaston	Chief, University Police Department
Amanda Gazzo	Lead Cashier
Lily Gee	Parking Coordinator, Parking and Transportation Services
Wanda Humphrey	Payroll Manager
Bill Kong	Staff Accountant
Wayne Kuhaupt	Manager, Accounts Payable and Collections
Phoebe Kwan	Executive Director, Division of Information Technology (DoIT)
Franz Lozano	Internal Auditor
Joy Manaois	Fiscal Manager, Fiscal Services Division
Michael Martin	Interim Associate Vice President, Human Resources, Safety and Risk Management
Ligaya Mendoza	Senior Payroll Specialist
Excel Mercado	Associate Bursar
Leroy M. Morishita	Vice President for Administration and Finance
Karen Mucci	Director, Enrollment Services, CEL
Michael O'Brien	Business Systems Coordinator, DoIT
Jonathan Rood	Associate Vice President, DoIT
Stephen Smith	Director, Procurement
Patricia Lynn Tolar	Transportation Coordinator, Parking and Transportation Services
Jack Tse	Senior Director, Network and Operations Services
Gloria Tseung	Associate Controller, Government Funds
Ajay Wadhwa	Information Security Officer
Larry Ware	Associate Vice President for Fiscal Affairs
Agnes Wong Nickerson	Controller for Fiscal Affairs
Burkland Wong	Associate Controller, Trust and Special Project Accounting
Corazon Wong	Director, Student Financial Operations/Business Systems
Wanda Wong	Resident Accounts Associate, Housing and Residential Services

## **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.



1600 Holloway Avenue  
San Francisco, CA 94132  
Tel: 415/338-1381  
Fax: 415/338-6210

OFFICE OF THE PRESIDENT

August 23, 2007

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, California 90802-4275

RECEIVED  
UNIVERSITY AUDITOR

AUG 24 2007

THE CALIFORNIA STATE  
UNIVERSITY

Dear Mr. Mandel:

We have reviewed the Office of the University Auditor Report #07-02 on FISMA at San Francisco State University. Our responses to the recommendations are attached which will also be forwarded to your staff electronically. We are taking actions to implement the recommendations.

Documentation demonstrating implementation of recommendations already completed will be forwarded to you separately. Questions regarding the responses may be directed to Leroy M. Morishita, Vice President for Administration & Finance and CFO, at 415/338-2521 or Franz Lozano, Internal Auditor, at 415/405-3736.

Sincerely,

*Leroy M. Morishita (for President Corrigan)*

Robert A. Corrigan  
President

FL/MO/id  
Attachments

cc: Leroy M. Morishita, Vice President, Administration & Finance and CFO  
Larry J. Ware, Associate Vice President for Fiscal Affairs  
Ted Yamasaki, Associate Vice President, Human Resources, Safety & Risk Management  
Jonathan Rood, Associate Vice President, Division of Information Technology  
Gail Whitaker, Associate Vice President/Dean, Academic Program Development/CEL (Rec. #1)  
Kirk Gaston, Chief of Police, University Police Department (Rec. #1)  
Michael Martin, Executive Director, Risk Management, HRSRM  
Phoebe Kwan, Executive Director, Division of Information Technology  
Agnes Wong Nickerson, Controller, Fiscal Affairs  
Stephen C. Smith, Director, Procurement Department  
Corazon Wong, Director, Student Financial Services and Fiscal Affairs Business Systems  
Edwin Billiot, University Bursar, Fiscal Affairs - Bursar's Office  
Wanda Humphrey, Manager, Payroll, HRSRM

Karen Mucci, Director of Enrollment Services, College of Extended Learning  
Lily Gee, Coordinator, Parking and Transportation  
Franz Lozano, Internal Auditor, Internal Audit  
Mark Osborne, Associate Internal Auditor

**FISMA**

**SAN FRANCISCO STATE UNIVERSITY**

**Audit Report 07-02  
July 19, 2007**

**CASH RECEIPTS**

**Recommendation 1**

We recommend that the campus:

- a. Ensure that CEL receipts are adequately secured when transferred between locations and implement the use of transfer receipts.
- b. Maintain updated written records of individuals with safe access knowledge and the date the combination was last changed at the CEL and parking and transportation.

**Campus Response**

We concur.

- a. The College of Extended Learning (CEL) and the Bursar's Office have arranged for CEL to utilize the university's cash-in-transit courier service to securely transfer cash receipt from the CEL downtown center to the university Bursar's Office which includes the use of transfer receipts.
- b. The College of Extended Learning and Parking and Transportation have updated their records to show the date the safe combination was last changed and the individuals who have knowledge of the combination.

**ACCOUNTS RECEIVABLE**

**Recommendation 2**

We recommend that the campus strengthen procedures to ensure that payroll accounts receivable are promptly pursued through the use of collection letters and tax offset.

**Campus Response**

We concur. Procedures will be strengthened to ensure that payroll receivables are pursued through the use of collection letters and tax offset. Expected completion date: November 2007.

## **PURCHASING**

### **Recommendation 3**

We recommend that the campus strengthen monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

### **Campus Response**

We concur. The Purchasing Department will initiate a quarterly review of open purchase orders. Starting 9/30/07 the department will send a memo to campus units requesting they review their open commitment reports. Unless Purchasing receives a request to the contrary by the beginning of the following month, all open orders showing no activity within the preceding 12 month period will be closed. For example, Purchasing will issue a review request on 9/30/07. As of 10/31/07 the department will close all purchase orders that have had no activity since 9/30/06 unless a campus unit specifically requests the order remain open. The next review memo will be issued 12/31/07, and as of 1/31/08 Purchasing will close all purchase orders with no activity since 12/31/06, unless otherwise notified. The quarterly review will be an ongoing business process initiated and performed by the Lead Buyer and the Procurement Systems Support Analyst. The procedure will apply to business units SFCMP and SFRSP, except that in the SFRSP business unit orders with a “C7” designation will not be automatically closed. These are sub-contracts related to grant activity. Purchasing will work with the Office of Research and Sponsored Projects to assess the status and action necessary for sub-contracts that have not shown activity within the preceding 12 month period. Expected completion date: October 2007.

## **OPERATING FUND**

### **Recommendation 4**

We recommend that the campus strengthen procedures to improve the timely recovery of salary advances and “in-lieu” check requests.

### **Campus Response**

We concur. As of June 2007, the campus no longer issues salary advances. In addition, recovery procedures over “in-lieu” checks will be strengthened. Expected completion date: November 2007.

## **PAYROLL AND PERSONNEL**

### **UNDELIVERED SALARY WARRANTS**

### **Recommendation 5**

We recommend that the campus strengthen its procedures to ensure that undelivered salary warrants are properly handled and timely remitted to the SCO when required.

**Campus Response**

As a matter of current procedures, during the monthly payroll distribution process, all campus payroll representatives/coordinators already receive an email memo reminding each about the importance of returning any undeliverable salary warrants within five days to the Disbursement Office. To further strengthen the return of undeliverable salary warrant procedures, a joint memo will be issued by the University Controller, the Accounts Payable and Collections Manager, and the Payroll Manager reiterating to all campus department payroll representatives/coordinators their responsibilities in returning any undeliverable salary warrants within 5 days of disbursement; and if the same individual/s continue to disregard these procedures, the University Controller, the Accounts Payable and Collections Manager, and the Payroll Manager will request the Dean/Director and/or Manager of the campus department to appoint/replace the individual. This new procedure will be implemented by October 2007.

**SEGREGATION OF DUTIES****Recommendation 6**

We recommend that the campus review payroll activities and take appropriate action to either segregate incompatible duties and responsibilities or establish mitigating controls.

**Campus Response**

We concur. As of June 2007, the Payroll department no longer retrieves or distributes undelivered salary warrants. The campus is in the process of formalizing the procedures. Expected completion date: November 2007.

**EMPLOYEE SEPARATION****Recommendation 7**

We recommend that the campus:

- a. Designate personnel to properly authorize (sign and date) personnel transactions.
- b. Strengthen controls to ensure that evidence of final wages including leave payout calculations is prepared and maintained on file.
- c. Establish procedures to ensure that the electronic clearance procedures adequately document the clearance of all employees prior to separation.

**Campus Response**

We concur.

- a. All payroll technicians have been authorized to sign and date personnel transactions. The campus is in the process of formalizing the procedure. Expected completion date: November 2007.
- b. As of July 2007, a form was created, put in use and retained on file for the calculation of final wages that include leave payout.

- c. Procedures will be established that ensure that electronic clearance procedures are adequately documented for all employees prior to separation. Expected completion date: November 2007.

## **VACATION AND COMPENSATORY TIME OFF ACCRUALS**

### **Recommendation 8**

We recommend that the campus strengthen controls over the maintenance of accrued balances at separation and the year-end adjustment of vacation and CTO accruals.

### **Campus Response**

We concur. Controls over the maintenance of accrued balances at separation and the year-end adjustment of vacation and CTO accruals will be strengthened. Expected completion date: November 2007.

## **FISCAL INFORMATION TECHNOLOGY**

### **PASSWORD CONTROLS**

#### **Recommendation 9**

We recommend that the campus amend its password controls to require that passwords be changed periodically and adhere to established password syntax standards.

#### **Campus Response**

We concur. The Division of Information Technology is currently pursuing a new authentication system that is part of the campus' portal project requiring strong and established password syntax standard. In addition, the portal will require the user to change the password as frequently as required by the most rigorous application. The plan for this is in the final stages and will commence in the fall of 2007.

### **INFORMATION SECURITY PROCEDURES**

#### **Recommendation 10**

We recommend that the campus conduct a survey of all departmental use and storage of sensitive data, and develop guidelines for campus departments to remove or protect any sensitive data found.

#### **Campus Response**

We concur. The Division of Information Technology will conduct a survey of all departmental use and storage of sensitive data and develop guidelines for campus departments to remove or protect any sensitive data found. Expected completion date: January 2008.

## **ENCRYPTION OF SENSITIVE DATA**

### **Recommendation 11**

We recommend that campus encrypt sensitive personal information stored in the financial aid system as soon as possible.

### **Campus Response**

We concur. The Division of Information Technology is currently analyzing the sensitive information stored in the financial aid system and is working on an encrypting solution. A design and plan will be completed by Fall 2007 and implementation will commence in January 2008.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 30, 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 07-02 on *FISMA*,  
San Francisco State University

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of August 30, 2007, I accept the response as submitted with the draft final report on *FISMA*, San Francisco State University.

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Robert A. Corrigan, President  
Mr. Franz Lozano, Internal Auditor  
Mr. Leroy M. Morishita, Vice President, Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS