

**FISMA**  
**SAN JOSÉ STATE UNIVERSITY**

**Audit Report 08-11**  
**June 23, 2009**

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## **ABBREVIATIONS**

CSU	California State University
EHDB	Employment History Database
FISMA	Financial Integrity and State Manager's Accountability Act
FS	Financial Services
GC	Government Code
HR	Human Resources
PIMS	Personnel/Payroll Information Management System
SAM	State Administrative Manual
SHC	Student Health Center
SJSU	San José State University
TEC	Travel Expense Claim

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## EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, Government Code (GC) Sections 13400 through 13407. 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 GC 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 José State University (SJSU) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with GC 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.
- ▶ Established controls are not only effective but also promote operational efficiency.
- ▶ 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 SJSU campus from November 17, 2008, through December 17, 2008, and made a study and evaluation of the accounting and administrative control in effect as of December 17, 2008. 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, payroll, and property. 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, SJSU's accounting and administrative control in effect as of December 17, 2008, 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 [7]**

Cash control weaknesses were found at three of the satellite cashiering areas visited. In addition, the administration of petty cash funds required improvement.

### **ACCOUNTS RECEIVABLE [10]**

Duties and responsibilities related to third-party accounts receivable were not properly segregated, and the pursuit of delinquent non-student accounts receivable required improvement.

### **CASH DISBURSEMENTS [12]**

Travel advances were not always recovered in a timely manner. This is a repeat finding from the prior FISMA audit.

### **PAYROLL [13]**

Duties and responsibilities related to certain payroll functions were not properly segregated.

### **PROPERTY [14]**

Property was not properly accounted for and recorded. In addition, property survey reports were not always timely and properly completed for the disposition of property.

### **RECONCILIATIONS [16]**

Campus reconciliations were not always performed in a timely manner.

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## INTRODUCTION

### **STATEMENT OF INTERNAL CONTROLS**

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. The ultimate responsibility for good internal control rests with management.

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, personnel of a quality commensurate with responsibilities, and an effective system of internal review.

#### 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.

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.

Experience indicates that the existence of certain danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individual units or activities, and generally include any of the following danger signals:

- ▶ Policy and procedural or operational manuals are either not currently maintained or are non-existent.
- ▶ Lines of organizational authority and responsibility are not clearly articulated or are non-existent.
- ▶ Financial and operational reporting is not timely and is not used as an effective management tool.

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## INTRODUCTION

- ▶ Line supervisors ignore or do not adequately monitor control compliance.
- ▶ No procedures are established to assure that controls in all areas of operation are evaluated on a reasonable and timely basis.
- ▶ Internal control weaknesses detected are not acted upon in a timely fashion.
- ▶ Controls and/or control evaluations have little relationship to organizational exposure to risk of loss or resources.

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.

## **PURPOSE**

The principal audit objectives were to assess the adequacy of the systems of internal accounting and administrative control and to determine whether financial operations were conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor. Specifically, we sought assurances that:

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, accounting entries, or systems output is reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

## **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 2007/08 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 2008 to September 2008. Our primary focus was on internal controls.

A preliminary survey of the campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the campus. Our assessment of risk was based upon a systematic process using management's feedback and professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Use of petty cash funds, periodic cash counts, and the administration and reconciliation of bank accounts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Adequate segregation of duties regarding authorization and payment of cash disbursements and appropriate controls over campus vendors.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Authorization and proper classification of personnel/payroll transactions and/or the accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, physical inventories, and authorization of disposals.
- ▶ Access restrictions to accounting systems.
- ▶ Establishment of trust funds, separate accounting, and adequate agreements.

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INTRODUCTION

We have not performed any auditing procedures beyond December 17, 2008. 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**

#### **SATELLITE CASHIERING**

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

The satellite cashiering locations reviewed included traffic and parking operations, the testing office, the College of Business, and the student health center (SHC).

#### **Testing Office**

- ▶ Checks were not restrictively endorsed upon receipt. Instead, checks were endorsed when preparing the weekly deposit.
- ▶ Cash was not adequately safeguarded. Cash was accumulated in a locked desk drawer until it exceeded \$500, at which time it was deposited.
- ▶ Duties and responsibilities related to reconciling and depositing of cash receipts were not properly segregated. One person received payments and prepared the deposit. Although a second employee reviewed the deposit, a signature was not provided to evidence this review.

#### **College of Business**

- ▶ Cash was not adequately safeguarded. Student employees were able to access the cash box used for day-to-day operations after hours. In addition, the supervisor retrieved the cash from the day-to-day cash box on an intermittent basis and accumulated this cash in his locked desk drawer until it exceeded \$300.
- ▶ Duties and responsibilities related to reconciling and depositing of cash receipts was not properly segregated at the College of Business. Cash received at the print center was accumulated by the supervisor in batches. Once the cash reached a certain threshold, the supervisor prepared the deposit. No secondary review of this deposit was performed.

#### **Student Health Center**

- ▶ Accountability for receipts was not always adequate. The SHC did not prepare a prelisting of checks received that were either erroneously addressed or intended for a different department.

State Administrative Manual (SAM) §8034.1 and §8023 require checks and other negotiable instruments to be endorsed on the day they are received.

SAM §8032.1 states that agencies without a safe or vault will accumulate collections until they amount to \$250 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

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.

SAM §20050 states, in part, 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 associate vice president of finance stated that all of the departments had been provided with proper cash-handling procedures from the bursar's office; however, due to staff turnover, additional training may be required.

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

### **Recommendation 1**

We recommend that the campus:

- a. Reiterate cash-handling procedures to staff and conduct training to ensure that checks are endorsed upon receipt at the testing office, a prelisting of mail receipts not payable to the university is maintained at the SHC, and all cashiering location employees are knowledgeable of cash-handling procedures.
- b. Purchase safes for the testing office and College of Business or increase deposit frequency to adhere to SAM regulations.
- c. Remove student employee access after normal business hours to the College of Business print center.
- d. Improve segregation of duties at the testing office and College of Business by including a documented secondary review of the deposit.

### **Campus Response**

We concur. We will complete management remedial action by the end of October 2009 to:

- a. Reiterate cash-handling procedures to staff and conduct training to ensure that checks are endorsed upon receipt at the testing office, a prelisting of mail receipts not payable to the university is maintained at the SHC, and all cashiering location employees are knowledgeable of cash-handling procedures.
- b. Purchase safes for the testing office and College of Business or increase deposit frequency to adhere to SAM regulations.
- c. Remove student employee access after normal business hours to the College of Business print center.

- d. Improve segregation of duties at the testing office and College of Business by including a documented secondary review of the deposit.

## **PETTY CASH**

Administration of petty cash funds required improvement.

We found that:

- ▶ The petty cash fund in the bursar's office was not always used for appropriate purposes. In one instance, it was used to fund an emergency short-term loan to a student in the amount of \$250.
- ▶ The \$500 petty cash fund in the biology department and the \$500 petty cash fund in the facilities, development, and operations department were not adequately safeguarded. These two funds were kept in locked file cabinets.

SAM §8112 states that cash purchase funds provide cash for purchases or services not to exceed \$50 per purchase or service.

SAM §8112.1 states that cash purchase funds will not exceed \$200 for each fund, except that cash purchase funds of as much as \$750 are authorized where: (a) a fund of lesser size would normally require replenishment more often than once a month; and (b) a safe, vault, or money chest adequate to safeguard cash is used.

The associate bursar of cashiering services stated that the use of petty cash for emergency loans was not common practice and only used under special circumstances such as when there was a problem with the check run or if there was an extreme financial hardship. The associate vice president of finance stated that campus departments were unaware that petty cash funds in excess of \$200 had to be kept in a safe, vault, or money chest.

Inadequate administration of petty cash funds increases the risk of loss and inappropriate use of state resources.

### **Recommendation 2**

We recommend that the campus:

- a. Discontinue using petty cash funds for purposes other than those outlined in SAM regulations.
- b. Purchase safes for the biology and facilities, development, and operations departments or adequately safeguard petty cash funds by limiting the amount of the funds in each of these departments.

### **Campus Response**

We concur. We will complete management remedial action by the end of October 2009 to:

- a. Discontinue using petty cash funds for purposes other than those outlined in SAM regulations.
- b. Purchase safes for the biology and facilities, development, and operations departments or adequately safeguard petty cash funds by limiting the amount of the funds in each of these departments.

## **ACCOUNTS RECEIVABLE**

### **THIRD-PARTY RECEIVABLES**

Duties and responsibilities related to third-party accounts receivable were not properly segregated.

We found that one accounting clerk created invoices, inputted payments to the accounts receivable ledger, and performed reconciliations to the general ledger.

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: maintaining books of original entry, receiving and depositing remittances, inputting receipts information, and reconciling input to output.

The director of accounting and financial systems stated that the accounts receivable to general ledger reconciliation was reviewed by a manager, which is considered a compensating control. He added that the campus was also planning to automate payments to the accounts receivable ledger in the near future. In addition, the associate vice president of finance stated her belief that since the accounting clerk only created the invoices based on information and amounts provided by the departments, this was not a true segregation of duties issue.

Inadequate segregation of duties over accounts receivable increases the risk of misstated assets and loss from inappropriate acts.

### **Recommendation 3**

We recommend that the campus review responsibilities relating to third-party receivables and segregate duties between the recordkeeping and reconciliation functions.

### **Campus Response**

We concur. We will complete management remedial action by the end of November 2009 to review responsibilities relating to third-party receivables and to ensure adequate control over segregation of duties between the recordkeeping and reconciliation functions.

## NON-STUDENT RECEIVABLES

Pursuit of delinquent non-student accounts receivable needed improvement.

Our review of third-party and employee accounts receivable disclosed that:

- ▶ In five instances, a series of three collection letters and/or telephone calls were not employed at 30-day intervals for delinquent third-party accounts receivable. The practice of the collection department was to follow up on third-party delinquent accounts only after 90 days past due.
- ▶ Collection of old auxiliary receivables was not adequate. On the aging report dated October 6, 2008, there were \$241,206 in receivables over 120 days past due from the San José State University Research Foundation, with invoice dates ranging from June 2004 to May 2008.
- ▶ Of the 12 employee receivables reviewed, 3 employees were notified in writing when the receivable became 30 days past due and 3 employees had not been notified in writing of the receivable.
- ▶ Written documentation of employee agreements to repayment plans was not maintained.

SAM §8776.6 states that each department will develop collection procedures that will assure prompt follow-up of accounts receivable. Further, the accounting office will send a sequence of three collection letters at 30-day intervals; if the collection letters are unsuccessful, an analysis should be prepared with additional collection efforts to include contracting with a collection agency.

SAM §8776.7 states that collection procedures should be employed in the collection of amounts due from employees, including initial notification of the receivable in writing, and written repayment schedules signed by the employee.

The associate bursar of collections stated her belief that since most third-party receivables were either government agencies or related organizations, both which the campus has established relationships with, following up after 90 days was deemed appropriate. In addition, she stated that some issues with follow-up on receivables were due to problems with processing credit histories but that this problem was being worked on by the systemwide information technology department. The manager of employee support services stated that past-due receivables were verbally communicated to the employees but were not adequately documented. She also stated that the campus had implemented new guidelines as of September 2008 to require communication in writing for employee receivables transactions.

Inadequate control over 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 receivables will not be properly reflected in the campus financial statements.

#### **Recommendation 4**

We recommend that the campus:

- a. Establish collection procedures for the follow-up of third-party and auxiliary receivables that include the issuance of letters/telephone calls at 30-day intervals. These procedures should also include further efforts to be made for receivables that remain outstanding after the letters have been sent out.
- b. Reiterate employee receivables procedures to staff to ensure timely written notification for past-due employee receivables.
- c. Establish procedures to maintain written documentation of employees' agreements to repayment plans.

#### **Campus Response**

We concur. We will complete management remedial action by the end of November 2009 to:

- a. Establish collection procedures for the follow-up of third-party and auxiliary receivables that include the issuance of letters/telephone calls at 30-day intervals. These procedures will also include further efforts to be made for receivables that remain outstanding after the letters have been sent out.
- b. Reiterate employee receivables procedures to staff to ensure timely written notification for past-due employee receivables.
- c. Establish procedures to maintain written documentation of employees' agreements to repayment plans.

### **CASH DISBURSEMENTS**

Travel advances were not always recovered in a timely manner. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Our review of ten travel advances issued between January 2008 and June 2008 disclosed that in two instances travel expense claims (TEC) for advances were not submitted in a timely manner after the end of the trip. These advances were cleared 99 and 117 days beyond the employees' travel end dates, and there was no documented follow-up with the employees for these late claims. In another instance, the accounting review of one TEC had not been completed at the time of our review, which was approximately 167 days after the employee's travel end date, and the approximate \$4,500 owed by the employee had not yet been repaid to the campus.

California State University (CSU) directive FS 2009-01, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated July 3, 2008, states, in part, that a TEC must be

submitted to substantiate travel expenses within a reasonable period of time not to exceed 60 days. If the advance exceeds the substantiated expenses, the employee must submit a check or money order with the TEC to return the excess advance no more than 120 days after the expense is paid or incurred. If an employee does not substantiate and return any excess advances, if applicable, that amount will be deducted from the next payroll warrant.

SAM §8116.2 and §8116.3 require campuses to perform follow-up activity on outstanding travel advances and to deduct uncollected advances from an employee's payroll warrant. A periodic statement must be sent no less frequently than bimonthly to notify employees who have travel advances, but have not submitted a TEC to substantiate the travel expenses and/or have not returned any excess travel advance amount.

The accounts payable manager stated that the person who had been performing the travel function for the department had resigned and that she had taken on the duties while looking for a replacement, which caused some items to fall behind. She further stated that for the advance that was still under review, she had discussed the claim with the department and the traveler, but no written follow-up was sent. She added that the claim was over 100 pages and therefore took longer than usual to prepare and review.

The untimely settlement of travel advances increases the risk that operating fund monies may not be available and decreases the likelihood of collection.

#### **Recommendation 5**

We recommend that the campus ensure that travel advances are timely recovered and that follow-up with travelers for late claims is documented.

#### **Campus Response**

We concur. We will complete management remedial action by the end of October 2009 to ensure that travel advances are timely recovered and that follow-up with travelers for late claims is documented.

## **PAYROLL**

Duties and responsibilities related to certain payroll functions were not properly segregated.

We noted that three supervisors in the employee services area could access and update both personnel records in PeopleSoft and payroll records in the Personnel/Payroll Information Management System (PIMS).

CSU directive HR/EHDB 2007-01, *KPMG Recommendation Concerning Payroll-related Segregation of Duties*, dated May 7, 2007, states that payroll employees should not be the same individuals who modify employee master files.

SAM §20050 states, in part, 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 associate director of employee support services stated that update privileges to personnel and payroll records was necessary for these supervisors as part of their oversight role and to assist in keying transactions during busy periods.

Inadequate segregation of duties related to certain payroll functions increases the risk of irregularities.

#### **Recommendation 6**

We recommend that the campus remove update capabilities to either PeopleSoft or PIMS for those individuals in the employee services area who have access to both systems or implement compensatory mitigating controls.

#### **Campus Response**

We concur. We will complete management remedial action by the end of November 2009 to implement compensatory mitigating controls to resolve the risk of dual access and updating by staff to PeopleSoft and PIMS.

## **PROPERTY**

### **ACQUISITIONS AND MAINTENANCE**

Administration of property required improvement.

We found that:

#### **Acquisitions**

- ▶ Five of ten items of capitalized property reviewed were recorded an average of 41 days before they were received.
- ▶ Five of ten items of capitalized property were recorded at a total of \$33,212 less than their actual amount, due to installment payments, sales tax, and/or shipping and handling costs.
- ▶ One item was capitalized for \$14,982 in error. The item was comprised of 22 LCD monitors costing approximately \$700 each that were ordered on one purchase order; none of these monitors were eligible for capitalization.

### **Off-Campus Use**

- ▶ Three of ten off-campus use forms reviewed were not signed or dated by both the employee and the property custodian.
- ▶ Four additional off-campus use forms did not include the check-out date; three were not signed by the property custodian; and one did not adequately identify the item being checked out.

SAM §8650 states that the items will be recorded in the property ledger when the property items are acquired.

SAM §8614 states that the cost of equipment includes the purchase price plus all costs to acquire, install, and prepare equipment for its intended use.

San José State University (SJSU) *Property Office Manual* states that the removal of property may be authorized only after completing a Property Check Out Form and forwarding a copy to the property office and the property must be used for university-related purposes.

The director of accounting and financial systems stated that campus policy indicates that the items should be recorded when the purchase order, invoice, and receiver are matched, and the recording errors were most likely the result of items being recorded from purchase order information instead of final invoice amounts. The associate vice president of finance stated that off-campus use forms had been difficult to maintain due to departmental cooperation being required for completion.

Insufficient administration of property increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

### **Recommendation 7**

We recommend that the campus:

- a. Ensure that property is timely recorded upon receipt, and that capitalized property is recorded at the proper amount.
- b. Review off-campus use procedures with the departments to ensure that required forms are fully completed and signed by the employee and property custodian.

### **Campus Response**

We concur. We will complete management remedial action by the end of November 2009 to:

- a. Ensure that property is timely recorded upon receipt, and that capitalized property is recorded at the proper amount.
- b. Review off-campus use procedures with the departments to ensure that required forms are fully completed and signed by the employee and property custodian.

## **DISPOSITION**

Property survey reports were not always timely and properly completed for the disposition of property.

Our review of ten items disposed of between July 1, 2007, and September 30, 2008, disclosed that for seven items one or both of the property survey board approval signatures was dated after the disposal, and one item was not approved by the property survey board.

*SJSU Property Office Manual* states that a property survey board has been developed to oversee the university equipment disposition process and that a minimum of two members of the board will approve all transactions.

The director of accounting and financial systems stated that the late approval of disposals was due to the delay from departments in reporting the disposition of items to the accounting office. He also stated that the one unapproved item was a recent disposal that was also not timely reported by the department to the accounting office.

Insufficient control over property dispositions increases the risk of inappropriate activities and reduces accountability over state property.

### **Recommendation 8**

We recommend that the campus ensure that property survey reports are timely completed and properly signed by property survey board members.

### **Campus Response**

We concur. We will complete management remedial action by the end of November 2009 to ensure that property survey reports are timely completed and properly signed by property survey board members.

## **RECONCILIATIONS**

Campus reconciliations were not always performed in a timely manner.

We noted that:

- ▶ Student receivables reconciliations for July, August, and September 2008 were prepared 40, 9, and 18 days late, respectively. The July and August reconciliations were also combined into one reconciliation.
- ▶ The property reconciliations for July, August, and September 2008 had all been performed on November 14, 2008.

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.

The director of accounting and financial systems stated that the combination of the July and August student receivables reconciliations was not the campus' usual practice and that the untimely reconciliations were due to year-end activities. In addition, he stated that the untimely property reconciliations were due to the campus' implementation of PeopleSoft Asset Management in June 2008; and due to this conversion, the campus changed its property reconciliation process.

Untimely reconciliations limit the campus' ability to detect errors and irregularities, compromise accountability, and may delay proper revenue recognition.

**Recommendation 9**

We recommend that the campus ensure that reconciliations are properly completed in a timely manner.

**Campus Response**

We concur. We will complete management remedial action by the end of November 2009 to ensure that reconciliations are properly completed in a timely manner.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Jon Whitmore	President
Marlene Anderson	Bursar
Ruben Araiza	Property Coordinator
Wilma Babayan	Accountant
Rick Casillo	Associate Director, Employee Support Services
Yolanda Castro	Parking Services Enforcement Analyst
Carmen Cayago	Accountant
Juanita Ceniza	Accountant I
Jenny Chang	Accountant
Deana Genereux	Associate Bursar, Collections
Gloria Gutierrez	Manager, Employee Support Services
Paula Hernandez	Senior Operations Officer
Tuan Ho	Accounting Technician
Rose Lee	Vice President for Administration and Finance
Bonnie King	Manager, Accounts Payable
Derrick Koh	Administrative Analyst/Specialist 12 Month
Andrew Nguyen	Systems Analyst
Satish Patel	Accounting Technician
Becka Paulsen	Associate Vice President, Finance
Ninh Pham-Hi	Director, Internal Control
Jim Renelle	Lieutenant
Lisa Rocha	Parking Coordinator
Salukazi Shamutete	Assistant Parking Manager
Paul Siegel	Director, Accounting and Financial Systems
Chau Tran	Operations Coordinator
Marlene Trifilo	Associate Bursar, Cashiering Services
Regina Villanueva	Accountant I
Shirley Wen	Accountant II
Andy Yeung	Information Technology Consultant



**San José State**  
UNIVERSITY

**Office of the Vice President  
for Administration and  
Finance**

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RECEIVED  
UNIVERSITY AUDITOR

JUL 20 2009

THE CALIFORNIA STATE  
UNIVERSITY

July 22, 2009

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802

**Campus Response to FISMA AUDIT (08-11) at  
San José State University**

Enclosed is San José State University's response to the FISMA Audit. The campus is committed to addressing the issues identified in this audit report.

Please let me know if I can provide you with additional information.

*Rose L. Lee*

ROSE L. LEE  
Vice President for Administration and Finance

Enclosure

c: Jon Whitmore, President  
Ninh Pham-Hi, Director, Internal Control

**The California State University:**

Chancellor's Office, Bakersfield, Channel Islands, Chico, Dominguez Hills, East Bay, Fresno, Fullerton, Humboldt, Long Beach, Los Angeles, Maritime Academy, Monterey Bay, Northridge, Pomona, Sacramento, San Bernardino, San Diego, San Francisco, San José, San Louis Obispo, San Marcos, Sonoma, Stanislaus

**FISMA**

**SAN JOSÉ STATE UNIVERSITY**

**Audit Report 08-11**

**CASH RECEIPTS**

**SATELLITE CASHIERING**

**Recommendation 1**

We recommend that the campus:

- a. Reiterate cash-handling procedures to staff and conduct training to ensure that checks are endorsed upon receipt at the testing office, a prelisting of mail receipts not payable to the university is maintained at the SHC, and all cashiering location employees are knowledgeable of cash handling procedures.
- b. Purchase safes for the testing office and College of Business or increase deposit frequency to adhere to SAM regulations.
- c. Remove student employee access after normal business hours to the College of Business print center.
- d. Improve segregation of duties at the testing office and College of Business by including a documented secondary review of the deposit.

**Campus Response**

We concur. We will complete management remedial action by end of October 09 to:

- a. Reiterate cash-handling procedures to staff and conduct training to ensure that checks are endorsed upon receipt at the testing office, a prelisting of mail receipts not payable to the university is maintained at the SHC, and all cashiering location employees are knowledgeable of cash-handling procedures.
- b. Purchase safes for the testing office and College of Business or increase deposit frequency to adhere to SAM regulations.
- c. Remove student employee access after normal business hours to the College of Business print center.
- d. Improve segregation of duties at the testing office and College of Business by including a documented secondary review of the deposit.

## **PETTY CASH**

### **Recommendation 2**

We recommend that the campus:

- a. Discontinue using petty cash funds for purposes other than those outlined in SAM regulations.
- b. Purchase safes for the biology and facilities, development, and operations departments or adequately safeguard petty cash funds by limiting the amount of the funds in each of these departments.

### **Campus Response**

We concur. We will complete management remedial action by end of October 09 to:

- a. Discontinue using petty cash funds for purposes other than those outlined in SAM regulations.
- b. Purchase safes for the biology and facilities, development, and operations departments or adequately safeguard petty cash funds by limiting the amount of the funds in each of these departments.

## **ACCOUNTS RECEIVABLE**

### **THIRD-PARTY RECEIVABLES**

#### **Recommendation 3**

We recommend that the campus review responsibilities relating to third-party receivables and segregate duties between the recordkeeping and reconciliation functions.

#### **Campus Response**

We concur. We will complete management remedial action by end of November 09 to review responsibilities relating to third-party receivables and to ensure adequate control over segregation of duties between the recordkeeping and reconciliation functions.

### **NON-STUDENT RECEIVABLES**

#### **Recommendation 4**

We recommend that the campus:

- a. Establish collection procedures for the follow-up of third-party and auxiliary receivables that include the issuance of letters/telephone calls at 30-day intervals. These procedures should also include further efforts to be made for receivables that remain outstanding after the letters have been sent out.

- b. Reiterate employee receivables procedures to staff to ensure timely written notification for past-due employee receivables.
- c. Establish procedures to maintain written documentation of employees' agreements to repayment plans.

**Campus Response**

We concur. We will complete management remedial action by end of November 09 to:

- a. Establish collection procedures for the follow-up of third-party and auxiliary receivables that include the issuance of letters/telephone calls at 30-day intervals. These procedures should also include further efforts to be made for receivables that remain outstanding after the letters have been sent out.
- b. Reiterate employee receivables procedures to staff to ensure timely written notification for past-due employee receivables.
- c. Establish procedures to maintain written documentation of employees' agreements to repayment plans.

**CASH DISBURSEMENTS**

**Recommendation 5**

We recommend that the campus ensure that travel advances are timely recovered and that follow-up with travelers for late claims is documented.

**Campus Response**

We concur. We will complete management remedial action by end of October 09 to ensure that travel advances are timely recovered and that follow-up with travelers for late claims is documented.

**PAYROLL**

**Recommendation 6**

We recommend that the campus remove update capabilities to either PeopleSoft or PIMS for those individuals in the employee services area who have access to both systems or implement compensatory mitigating controls.

**Campus Response**

We concur. We will complete management remedial action by end of November 09 to implement compensatory mitigating controls to resolve the risk of dual access and updating by staff to PeopleSoft and PIMS.

## PROPERTY

### ACQUISITIONS AND MAINTENANCE

#### Recommendation 7

We recommend that the campus:

- a. Ensure that property is timely recorded upon receipt, and that capitalized property is recorded at the proper amount.
- b. Review off-campus use procedures with the departments to ensure that required forms are fully completed and signed by the employee and property custodian.

#### Campus Response

We concur. We will complete management remedial action by end of November 09 to:

- a. Ensure that property is timely recorded upon receipt, and that capitalized property is recorded at the proper amount.
- b. Review off-campus use procedures with the departments to ensure that required forms are fully completed and signed by the employee and property custodian.

### DISPOSITION

#### Recommendation 8

We recommend that the campus ensure that property survey reports are timely completed and properly signed by property survey board members.

#### Campus Response

We concur. We will complete management remedial action by end of November 09 to ensure that property survey reports are timely completed and properly signed by property survey board members.

## RECONCILIATIONS

#### Recommendation 9

We recommend that the campus ensure that reconciliations are properly completed in a timely manner.

#### Campus Response

We concur. We will complete management remedial action by end of November 09 to ensure that reconciliations are properly completed in a timely manner.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

August 5, 2009

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FROM: Charles B. Reed  
Chancellor

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 08-11 on *FISMA*,  
San José State University

LONG BEACH

LOS ANGELES

In response to your memorandum of August 5, 2009, I accept the response as submitted with the draft final report on *FISMA*, San José State University.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHBRIDGE

Enclosure

POMONA

SACRAMENTO

c: Ms. Rose L. Lee, Vice President, Administration and Finance  
Dr. Jon Whitmore, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS