

FISMA

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**Audit Report 09-06
March 4, 2010**

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ABBREVIATIONS

CRDI	Center for Reading Diagnosis and Instruction
CSU	California State University
CSUMB	California State University, Monterey Bay
EHDB	Employment History Database
EE	Extended Education
FY	Fiscal Year
GC	Government Code
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
PIMS	Personnel/Payroll Information Management System
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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.

California State University, Monterey Bay (CSUMB) 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 CSUMB campus from October 26, 2009, through December 3, 2009, and made a study and evaluation of the accounting and administrative control in effect as of December 3, 2009. 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, and payroll. 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, CSUMB's accounting and administrative control in effect as of December 3, 2009, taken as a whole, was sufficient to meet the objectives stated above.

CASH RECEIPTS [6]

Duties and responsibilities at the main cashier were not properly segregated. Cash control weaknesses were found at two satellite cashiering locations. The campus did not have written procedures in place for the administration of user accounts in the CashNet system.

ACCOUNTS RECEIVABLE [9]

Collection activity for delinquent student accounts receivable needed improvement. Duties and responsibilities related to employee accounts receivable and salary advances were not properly segregated.

CASH DISBURSEMENTS [11]

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

PAYROLL [12]

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

PROPERTY [13]

Property acquisitions were not always recorded accurately in the accounting records.

RECONCILIATIONS [14]

Application fee, state university fee and student receivable reconciliations were either not completed or not completed in a timely manner.

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.

- ▶ 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, systems output, or accounting entries are 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 2008/09 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 2009 to September 2009. 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.
- ▶ 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.
- ▶ Authorization and proper classification of personnel/payroll transactions.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, physical inventories, and authorization of property disposals.

We have not performed any auditing procedures beyond December 3, 2009. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SEGREGATION OF DUTIES

Duties and responsibilities at the main cashier were not properly segregated.

Based on assigned PeopleSoft access roles, we found that:

- ▶ All three administrators of the CashNet cashiering system had the ability to post charge and payment reversals to student accounts in PeopleSoft. In addition, one of these administrators also had the ability to approve and to reverse student refunds, and to post and reverse write-offs.
- ▶ One cashier had the ability to reverse student charges and to approve and reverse student refunds in PeopleSoft.
- ▶ One student assistant cashier had the ability to reverse student charges in PeopleSoft.

State Administrative Manual (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: receiving and depositing remittances, inputting receipts information, and reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions.

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

The cashiering and student accounting services manager stated that these accesses were provided for the employees to perform their established job functions. She further stated that complete segregation of duties was difficult due to staffing constraints.

Inadequate segregation of duties between cash receipts and accounts receivable duties increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Review employees' job functions to determine whether the CashNet and PeopleSoft update accesses are necessary.
- b. For those employees who use both systems, remove update access to CashNet or to PeopleSoft student accounting or, alternatively, implement compensatory mitigating controls.

Campus Response

We concur. We will perform a review to determine whether update accesses are necessary and either remove conflicting access or implement mitigating controls. The review and changes will be implemented by June 30, 2010.

SATELLITE CASHIERING

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

The satellite cashiering locations reviewed included the Campus Service Center, Extended Education (EE), and the Center for Reading Diagnosis and Instruction (CRDI).

We found that:

- ▶ Checks were not always restrictively endorsed on the day received at EE. The walkthrough of the EE department disclosed that the department had not yet endorsed checks it had collected the previous day and filed in a locked cabinet for processing.
- ▶ Press-numbered receipts were not provided to customers at the CRDI. Instead, customers making payments were provided updated customer statements showing the payment made.
- ▶ Duties and responsibilities related to cashiering and accounts receivable were not properly segregated at the CRDI. Specifically, the administrative support coordinator registered conference and tutoring participants, received payments, created invoices, performed collection activities, and prepared the deposit for transfer to the main cashiering location.

California State University, Monterey Bay *Cash Handling for Satellite Cashiers* policy states that checks must be endorsed at the time they are received.

SAM §8020 states that receipts should be prepared for collection transactions, and that these receipts will be press-numbered.

SAM §8032.3 states that except where the supervisor and the person depositing cash are not at the same location, the person supervising the person depositing cash will verify that receipts have been deposited intact and in accordance with SAM §8032.1.

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

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.

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

The cashiering and student accounting services manager stated that the campus has provided satellite cashiers with policies that include endorsement of checks on the day they are received, and that the situation must have been an oversight on the part of the cashier at EE. She further stated that segregation of duties is difficult at CRDI due to lack of staff at that location, and that the administrative support coordinator had not realized that customer receipts needed to be press-numbered.

Untimely endorsement of checks increases the risk of funds not being deposited correctly or not being deposited at all. Inadequate segregation of duties over cash receipts increases campus exposure to loss from irregular activities.

Recommendation 2

We recommend that the campus:

- a. Reinforce established procedures to ensure that satellite cashiering locations understand that checks should be endorsed at the time received.
- b. Incorporate the requirement for the use of press-numbered receipts in campus cashiering procedures and communicate this requirement to satellite cashiering locations.
- c. Implement appropriate segregation of duties in CRDI cashiering. This could include assigning a second person to review the deposit to the main cashier, including verifying press-numbered receipts to the amount to be deposited, and assigning accounts receivable duties to another employee or to the main cashier.

Campus Response

We concur. We will reinforce existing cashiering procedures, incorporate press-numbered receipts, and address the segregation of duties issue at CRDI. These changes will be made by August 30, 2010.

SYSTEM ACCESS

The campus did not have written procedures in place for the administration of user accounts in the CashNet system.

Our review of user accounts in CashNet disclosed that two user accounts which the campus had created for a third-party company to process online credit card payments were not deleted, even though business processes had changed so that the third-party company stopped using CashNet to

process payments as of August 2008. An additional user account had not been deleted for an employee who separated in June 2008.

SAM §4842.2 states that appropriate risk management procedures should be implemented to provide termination practices that ensure that information assets are not accessible to former employees. Effective termination practices include removal of system access upon employee termination or transfer.

The cashiering and student accounting services manager stated that she had not been informed that the third-party company was no longer using CashNet or that the employee had separated, and therefore, she had not known to deactivate the CashNet accounts.

The lack of written procedures for the administration of user accounts increases the risk of inappropriate access.

Recommendation 3

We recommend that the campus develop and implement written policies and procedures for the administration of CashNet user accounts.

Campus Response

We concur. We will develop and implement written CashNet administration procedures. This will be completed by May 31, 2010.

ACCOUNTS RECEIVABLE

STUDENT ACCOUNTS RECEIVABLE

Collection activity for delinquent student accounts receivable needed improvement.

In our sample of 12 student accounts receivable, we noted the following:

- ▶ Collection letters were not timely for six student receivables.
- ▶ One student with an outstanding receivable of \$1,812 was permitted to register in subsequent semesters.
- ▶ Two accounts were not written off in a timely manner. One receivable had been outstanding for more than six years, and one had been outstanding for more than seven years.

Additionally, we noted that the campus was not using an aged receivables report for management and follow-up of student receivables at the time of the audit, due to PeopleSoft Student Financial conversion issues.

State University Administrative Manual (SUAM) §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, and utilization of the offset claim procedures for accounts greater than \$10.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables and states that a sequence of three collection letters is to be sent. Further, if all reasonable collection procedures are unsuccessful, an analysis should be prepared to determine what additional collection efforts should be made.

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; an established system of practices to be followed in performance of duties and functions; and an effective system of internal review.

The cashiering and student accounting services manager stated that delays or errors made in the collection process and the incorrect balances on the student receivables aging report may have been caused by the recent campus transition to the PeopleSoft student accounting system.

Inadequate control over accounts receivable increases the risk of misstated assets and loss from inappropriate acts, reduces the likelihood of collection, and negatively impacts cash flow.

Recommendation 4

We recommend that the campus review and update existing collection procedures to ensure that they accurately reflect the new PeopleSoft student accounting system and to ensure that collection activities are performed in a timely manner.

Campus Response

We concur. We will update collection procedures and ensure that collection activities are performed in a timely manner. This will be completed by May 31, 2010.

EMPLOYEE RECEIVABLES AND SALARY ADVANCES

Duties and responsibilities related to employee accounts receivable and salary advances were not properly segregated.

We found that employee check payments for these items were delivered to staff at the payroll department, who also initiated and handled the collection of these items.

SAM §8080.1 states, in part, that no one person will perform more than one of the following types of duties: maintaining records file, receiving and depositing remittances, inputting receipts information, reconciling input to output, and initiating or preparing invoices.

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 payroll services manager stated that payroll technicians receive the employee receivable and salary advance check payments in order to correctly identify the payment information before forwarding to the main cashier for deposit. He also noted that check payments were not the primary form of repayment for either employee receivables or salary advances.

Inadequate segregation of duties and responsibilities related to accounts receivable and salary advances increases the risk of misstated assets and loss from inappropriate acts.

Recommendation 5

We recommend that duties be segregated so that payroll employees do not receive employee receivable or salary advance repayment checks.

Campus Response

We concur. Payroll employees have ceased handling repayment checks for employee account receivables and salary advances. Written procedures will be updated to reflect proper segregation of duties by May 31, 2010.

CASH DISBURSEMENTS

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

We reviewed the most recent list of outstanding checks as of the end of September 2009 and noted 180 checks totaling \$56,665 that were older than one year. We also noted an additional 63 checks totaling \$19,724 that were older than six months, the time period after which Wells Fargo checks are stale-dated.

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.

The general accounting and reporting manager stated that the outstanding checks were all student checks that needed to be researched to determine whether the students were entitled to these amounts. She further stated that the delay in processing was caused by the conversion to the PeopleSoft student accounting system.

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

Recommendation 6

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

Campus Response

We concur. The campus will process the noted outstanding checks and strengthen procedures to ensure that outstanding checks are processed on a timely basis. This will be completed by June 30, 2010.

PAYROLL

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

We noted that one payroll technician 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 payroll services manager stated that the payroll technician was provided this access in order to perform her established job function of correcting and updating student employee records.

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

Recommendation 7

We recommend that the campus remove update capabilities to either PeopleSoft or PIMS for the affected employee, or implement compensating controls.

Campus Response

We concur with the recommendation to remove the affected employee's capability to update non-payroll data in PeopleSoft. The campus will remove this capability by May 31, 2010.

PROPERTY

Property acquisitions were not always recorded accurately in the accounting records.

Our review of eight capitalized property acquisitions between July 2008 and September 2009 disclosed that in three instances, the property was recorded to the general ledger for incorrect amounts ranging from undercapitalization of \$852 to overcapitalization of \$142.

SAM §8631 states that purchased assets are recorded at cost. Cost is the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

The director of business and support services stated that the capitalization of these three items involved special circumstances, and that procedures have since been modified to more accurately record capitalized asset values.

Failure to accurately record property acquisitions could result in the misstatement of campus accounting records.

Recommendation 8

We recommend that the campus review existing procedures regarding capitalization of property to ensure that items are capitalized for the correct amounts, including freight, sales or use tax, or other incidental costs.

Campus Response

We concur. We will review, update, and document existing property capitalization procedures to address incidental costs. Staff will be trained on these new procedures by May 31, 2010.

RECONCILIATIONS

Certain reconciliations were either not completed or not completed in a timely manner.

During our review of reconciliations, we noted that:

- ▶ Application fee reconciliations were not timely and were only prepared on a yearly basis. We noted that the application fee reconciliation for fiscal year (FY) 2008/09 was not prepared until November 30, 2009. In addition, procedures for this reconciliation were outdated.
- ▶ State university fee reconciliations were not timely and were only prepared on a yearly basis. We noted that the state university fee reconciliation prepared for FY 2008/09 was not prepared until November 28, 2009. In addition, no procedures were in place for this reconciliation.
- ▶ Student receivable reconciliations were not timely prepared. We noted that the most recent reconciliation of the accounts receivable subsidiary ledger to the general ledger was for June 2009, and was not completed until September 15, 2009.

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.

SUAM §3825.01 requires that a reconciliation of applications for admission to fees received shall be prepared for each academic year term within one month of the end of the term, and maintained on file by each campus.

SUAM §3825.02 states that a reconciliation of state university fees to census date report relative to the number of students accounted on the census date shall be prepared for each academic term. The reconciliation shall be maintained on file by each campus.

The cashiering and student accounting services manager stated that student receivable and fee reconciliations have been difficult to prepare due to problems in retrieving data from the new PeopleSoft student accounting system.

Failure to complete or timely prepare reconciliations increases the risk that errors and irregularities will not be detected and compromises accountability.

Recommendation 9

We recommend that the campus:

- a. Update and implement application fee reconciliation procedures to ensure that reconciliations are performed for each academic term. These procedures should reflect the new PeopleSoft student

accounting system and should also address the circumstances in which variances must be researched.

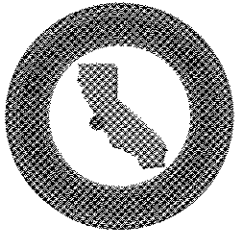
- b. Develop and implement procedures for state university fee reconciliations to ensure that reconciliations are performed for each academic term. These procedures should also address the circumstances in which variances must be researched.
- c. Ensure that all reconciliations are performed in a timely manner, within 30 days after the previous month-end.

Campus Response

We concur. We will develop and implement procedures for application fees and state university fees and ensure they are performed on a timely basis. This will be completed by August 30, 2010.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Dianne F. Harrison	President
George Ball	Property Coordinator
Rachelle Bass	Assistant Director of Student Services
Sandra Chapa	Cash Accountant
Art Evjen	Director of Business and Support Services
John Fitzgibbon	Associate Vice President for Finance
Veronica Flores	Director of Student Information Systems
Christine Frederick	Cashiering and Student Accounting Services Manager
Gretchen Fuentes	Director of Human Resources Operations
Regina Lualemana	Administrative Support Coordinator
James Main	Vice President for Administration and Finance
Tali Manouki	Accounts Receivable Technician
Irene Moulton	Administrative Support Coordinator
William Musselman	Director of Accounting
Linda Novotny	Administrative Support Coordinator
Wes Scheibly	Payroll Services Manager
Karen Sellick	Extended Education and International Programs Analyst
Joyce Stine	Finance Administrative Coordinator
Linda Wight	Associate Vice President for University Human Resources
Michele Zollna	General Accounting and Reporting Manager



CALIFORNIA STATE UNIVERSITY
Monterey Bay

OFFICE OF THE VICE PRESIDENT
FOR ADMINISTRATION AND FINANCE

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April 13, 2010

RECEIVED
UNIVERSITY AUDITOR

APR 13 2010

THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel
University Auditor
Office of the University Auditor
California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Subject: FISMA Audit #09-06

Dear Larry:

Attached is the hard copy of CSU Monterey Bay's responses to the recommendations regarding the subject audit. Electronic copy has been transmitted to your attention.

Please contact AVP John Fitzgibbon if you have any questions or comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "James E. Main".

James E. Main
VP for Administration and Finance

Attachment

cc: Senior Director Schlack
Associate VP Fitzgibbon
Associate VP Wight
Payroll Services Manager Scheibly
Director Evjen

FISMA

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

Audit Report 09-06

CASH RECEIPTS

SEGREGATION OF DUTIES

Recommendation 1

We recommend that the campus:

- a. Review employees' job functions to determine whether the CashNet and PeopleSoft update accesses are necessary.
- b. For those employees who use both systems, remove update access to CashNet or to PeopleSoft student accounting or, alternatively, implement compensatory mitigating controls.

Campus Response

We concur. We will perform a review to determine whether update accesses are necessary and either remove conflicting access or implement mitigating controls. The review and changes will be implemented by June 30, 2010.

SATELLITE CASHIERING

Recommendation 2

We recommend that the campus:

- a. Reinforce established procedures to ensure that satellite cashiering locations understand that checks should be endorsed at the time received.
- b. Incorporate the requirement for the use of press-numbered receipts in campus cashiering procedures and communicate this requirement to satellite cashiering locations.
- c. Implement appropriate segregation of duties in CRDI cashiering. This could include assigning a second person to review the deposit to the main cashier, including verifying press-numbered receipts to the amount to be deposited, and assigning accounts receivable duties to another employee or to the main cashier.

Campus Response

We concur. We will reinforce existing cashiering procedures, incorporate press-numbered receipts, and address the segregation of duties issue at CRDI. These changes will be made by August 30, 2010.

SYSTEM ACCESS

Recommendation 3

We recommend that the campus develop and implement written policies and procedures for the administration of CashNet user accounts.

Campus Response

We concur. We will develop and implement written CashNet administration procedures. This will be completed by May 31, 2010.

ACCOUNTS RECEIVABLE

STUDENT ACCOUNTS RECEIVABLE

Recommendation 4

We recommend that the campus review and update existing collection procedures to ensure that they accurately reflect the new PeopleSoft student accounting system and to ensure that collection activities are performed in a timely manner.

Campus Response

We concur. We will update collection procedures and ensure that collection activities are performed in a timely manner. This will be completed by May 31, 2010.

EMPLOYEE RECEIVABLES AND SALARY ADVANCES

Recommendation 5

We recommend that duties be segregated so that payroll employees do not receive employee receivable or salary advance repayment checks.

Campus Response

We concur. Payroll employees have ceased handling repayment checks for employee account receivables and salary advances. Written procedures will be updated to reflect proper segregation of duties by May 31, 2010.

CASH DISBURSEMENTS

Recommendation 6

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

Campus Response

We concur. The campus will process the noted outstanding checks and strengthen procedures to ensure that outstanding checks are processed on a timely basis. This will be completed by June 30, 2010.

PAYROLL

Recommendation 7

We recommend that the campus remove update capabilities to either PeopleSoft or PIMS for the affected employee, or implement compensating controls.

Campus Response

We concur with the recommendation to remove the affected employee's capability to update non-payroll data in PeopleSoft. The campus will remove this capability by May 31, 2010.

PROPERTY

Recommendation 8

We recommend that the campus review existing procedures regarding capitalization of property to ensure that items are capitalized for the correct amounts, including freight, sales or use tax, or other incidental costs.

Campus Response

We concur. We will review, update and document existing property capitalization procedures to address incidental costs. Staff will be trained on these new procedures by May 31, 2010.

RECONCILIATIONS

Recommendation 9

We recommend that the campus:

- a. Update and implement application fee reconciliation procedures to ensure that reconciliations are performed for each academic term. These procedures should reflect the new PeopleSoft student accounting system and should also address the circumstances in which variances must be researched.
- b. Develop and implement procedures for state university fee reconciliations to ensure that reconciliations are performed for each academic term. These procedures should also address the circumstances in which variances must be researched.
- c. Ensure that all reconciliations are performed in a timely manner, within 30 days after the previous month-end.

Campus Response

We concur. We will develop and implement procedures for application fees and state university fees and ensure they are performed on a timely basis. This will be completed by August 30, 2010.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

May 5, 2010

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 09-06 on *FISMA*,
California State University, Monterey Bay

LONG BEACH

LOS ANGELES

In response to your memorandum of May 5, 2010, I accept the response as submitted with the draft final report on *FISMA*, California State University, Monterey Bay.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

Enclosure

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS