

FISMA

**CALIFORNIA STATE UNIVERSITY,
SACRAMENTO**

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ABBREVIATIONS

AMM	Asset Management Module
BCRS	Blackboard Cash Receipting System
BIS	Business Information Services
CCE	College of Continuing Education
CSU	California State University
CSUS	California State University, Sacramento
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
HR	Human Resources
PMS	Property Management System
SAM	State Administrative Manual
SCO	State Controller's Office
SFSC	Student Financial Services Center
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

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.

California State University, Sacramento (CSUS) 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 CSUS campus from February 7, 2005, through April 8, 2005, and made a study and evaluation of the accounting and administrative control in effect as of April 8, 2005. 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, revolving fund, payroll and personnel, fiscal information technology, and PeopleSoft implementation. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, CSUS's accounting and administrative control in effect as of April 8, 2005, 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 all three satellite cashiering locations visited. Accountability for the receipt of funds was compromised at all three locations because the employee responsible for opening incoming mail did not prepare a prelisting of checks received not payable to the university. In addition, accountability for cash receipts was not properly localized at the OneCard office since multiple individuals had access to the single cash register receipt terminal and were not utilizing unique IDs to gain access to the cash receipting system. Further, funds were not adequately safeguarded at the OneCard and College of Continuing Education non-credit offices, as safes were unlocked during normal operating hours.

ACCOUNTS RECEIVABLE [8]

Delinquent payroll and student accounts receivable were not adequately pursued to ensure timely collection. Adequate and timely follow-up was not conducted for 17 of the 31 outstanding payroll receivables reviewed exceeding \$1,000. Additionally, collection letters were untimely and inconsistently sent for 11 of 20 outstanding student receivables reviewed, and prior notice was not provided to the debtor for 3 of 14 accounts sent for tax offset. Further, the campus inappropriately wrote-off bad debts greater than \$1,000 instead of applying to the State Controller's Office for discharge from accountability. During 2003 and 2004, the campus wrote-off eight accounts receivable balances totaling \$13,916.

PURCHASING [10]

Campus procurement card procedures were not enforced to ensure that all purchases were appropriate, adequately documented, and properly approved. A review of procurement card statements disclosed inappropriate purchases of on-campus catering services, materials for minor capital projects, and a technical support service contract. Additionally, four purchases lacked supporting itemized receipts, two purchases were not properly approved, and one purchase was split into two transactions in order to circumvent the cardholder's transaction limit.

REVOLVING FUND [11]

Travel and salary advances were not always recovered in a timely manner. Four of fifteen travel advances issued between June 9, 2004, and October 1, 2004, were still outstanding as of February 2005. Collection activity had not been performed for three of the travel advances, and none of the advances had been deducted from the employees' payroll warrants. In addition, all ten salary advances reviewed were

not recovered within 60 days. No collection activity was performed for five of the advances, while collection efforts for the other five advances began more than 60 days after advance issuance; and the campus did not compute and remit federal withholding taxes as required.

PAYROLL AND PERSONNEL [13]

Employee separation procedures did not ensure complete clearance documentation. A review of 15 employee separations disclosed that clearance forms were not on file for five of the employees. This is a repeat finding from the last two FISMA reviews. Undelivered salary warrants were untimely returned to the student financial services center. Thirty-three of thirty-four undelivered salary warrants were returned by departmental warrant officers from two business days to nine months late. Additionally, procedures had not been developed to notify departmental warrant officers when warrants were returned delinquent. Further, the campus had not adequately documented procedures for monitoring compliance with the CSU *Additional Employment Policy*.

FIXED ASSETS [15]

Property acquisitions were not always recorded into the accounting records in a timely manner. A review of ten property acquisitions disclosed that in five instances, property was recorded into the accounting records from 102 to 146 days after receipt.

FISCAL INFORMATION TECHNOLOGY [16]

Both the authorization process for, and the monitoring controls over, modification to production PeopleSoft data, were in need of improvement. The existing authorization process was performed by an individual that also had the capability to perform updates to production PeopleSoft data, and there was no process for reconciling actual changes to authorized changes. In addition, access roles and privileges to the PeopleSoft financial system were not effectively assigned to prevent unauthorized access and data modification.

PEOPLESOFT IMPLEMENTATION [18]

Acquisition dates for existing property records were not accurately converted during system conversion to the PeopleSoft Asset Management Module in November 2004. In addition, the PeopleSoft implementation/conversion delayed the completion of certain reconciliations. Application fee reconciliations for the four semesters between fall 2002 and spring 2004 were completed from 47 to 231 days after the end of the academic term, and state university fee reconciliations for these same four semesters were completed from 36 to 168 days after the end of the academic term. Accounts receivable subsidiary ledger reconciliations to the general ledger for the months of October, November, and December 2004 were not completed until February 2005.

INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems to ensure that:

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2003/04 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was October 2004 to December 2004. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of revolving fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ Procedures for initiating, evaluating, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond April 8, 2005. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

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

The satellite cashiering locations reviewed included the credit and non-credit offices of the College of Continuing Education (CCE) and the OneCard office.

Accountability

Accountability for cash receipts was not properly localized at the OneCard office. We noted that multiple individuals had access to the single cash register receipt terminal and were not utilizing unique IDs to gain access to the Blackboard Cash Receipting System (BCRS). In addition, the employee responsible for opening incoming mail at each of the three satellite cashiering areas visited did not prepare a prelisting of checks received not payable to the university.

The California State University (CSU) *Information Security Policy*, dated August 2002, states that campus policies and procedures should provide for individual unique user ID/passwords (no shared IDs).

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

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

The director of support services stated that OneCard office staff had been assigned unique IDs for accessing the BCRS, but protocol was not followed. The director of the student financial services center (SFSC) stated that checks not payable to the university had been prelisted at the primary site of receipt since October 2003, but the satellite locations were unaware of the requirement.

Safety of Funds

The OneCard office did not keep its safe locked during normal operating hours even though the safe contained the prior day's deposit and the change fund, and there were no physical barriers to restrict non-employee access to the safe. In addition, the CCE non-credit office did not keep its safe locked during normal operating hours even though cash payments were generally received two to three times per week and ranged from \$50 to \$1,000.

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.

The director of support services stated that no specific instructions had been given to the OneCard office staff indicating that the safe must remain locked at all times when not in use. He further stated that the safe door was kept closed, thus giving the appearance of being locked. The CCE director of administrative operations stated her belief that the safe was positioned in a secure location, and the registration area was never left unattended. She also stated that the location was only accessible through an entrance secured with an electronic lock and only authorized employees had been granted access.

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

During the audit, the campus took immediate action to implement procedures to prelist checks received not payable to the university at the three satellite cashiering areas visited.

Recommendation 1

We recommend that the campus:

- a. Localize accountability for cash receipts at the OneCard office and implement the use of unique IDs.
- b. Ensure that safes at the OneCard and CCE non-credit offices remain locked when not in use during normal operating hours.

Campus Response

We concur.

- a. OneCard staff will be given additional instruction in accountability for cash receipts, as well as the importance and requirement to use their unique IDs when accessing cash drawers. This will be completed by November 1, 2005.
- b. Written instructions will be issued to the OneCard staff to keep the office safe closed and locked at all times when it is not in use. This will be completed by November 1, 2005. In addition, a sign has been placed on the door of the safe as a reminder to keep the safe closed and locked when not in use. CCE revised its practice of securing its safe for cash receipts. The safe is locked during the day, and is located in a private locked office, which has limited access. This task was completed during September 2005.

ACCOUNTS RECEIVABLE

DELINQUENT ACCOUNTS RECEIVABLE

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

We found that:

- ▶ Adequate and timely collection activities had not been conducted for 17 of 31 outstanding payroll receivables reviewed exceeding \$1,000. In nine instances, collection letters were not sent, and in eight instances, they were sent 3 to 13 months late.
- ▶ Collection letters were not timely and consistently sent for 11 of 20 outstanding student receivables reviewed. In addition, prior notice was not provided to the debtor for 3 of 14 accounts sent for tax offset.

Government Code §19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from Office Revolving 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 manager of payroll services and the supervisor of collections stated that untimely payroll receivables collection efforts were due to a combination of factors, including missing or delayed payroll letters, outdated training material, and non-compliance with assigned duties and procedures. The supervisor of collections stated that student receivables collection efforts had not been sufficient due to a combination of factors, including staff turnover and vacancies, non-compliance with assigned duties and procedures, and a lapse in adequate monitoring of employees' collection progress. She further stated that copies of tax-offset notices were not maintained due to the volume of notices mailed, and the report information was overwritten by subsequent changes since it was an ongoing working document.

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

Recommendation 2

We recommend that the campus strengthen procedures over payroll and student accounts receivable to ensure that these accounts receivable are promptly pursued for collection or tax offset, including proper debtor notice prior to tax offset.

Campus Response

We concur. The payroll manager, in cooperation with the collections manager, implemented a new procedure regarding the collection of payroll accounts receivables. This new process and the related procedures will be documented by December 31, 2005.

The SFSC revised the collection procedures to ensure documentation of verification activity, and to include a random file audit process to assure compliance. A copy of the tax offset notification report is retained to verify and document that proper notice was provided. This task was completed during September 2005.

BAD DEBT WRITE-OFF

The campus inappropriately wrote-off bad debts greater than \$1,000 instead of applying to the SCO for discharge from accountability.

We found that eight accounts receivable with balances in excess of \$1,000, totaling \$13,916, were written-off by the campus during calendar years 2003 and 2004 without seeking discharge from accountability from the SCO.

SAM §8776.6 states, in part, that if all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectible amounts due from private entities. Departments will file an Application For Discharge From Accountability form with the SCO.

Executive Order (EO) 616 delegates the authority to campuses to write-off uncollectible debts of \$1,000 or less under the enactment of Education Code §89750.5.

The supervisor of collections stated that the campus had not requested discharge from accountability for uncollectible amounts over \$1,000 due to the continuation of collection practices from previous years. She further stated that prior management believed that the relevant SAM sections only applied to General Fund accounts.

Failure to comply with discharge of accountability requirements increases the risk of unauthorized write-offs.

Recommendation 3

We recommend that the campus strengthen procedures to ensure that an application for discharge from accountability is made to the SCO for write-offs greater than \$1,000.

Campus Response

We concur. Collection procedures for accounts over \$1,000 were revised to ensure the proper submission of forms to the SCO. Additionally, all discharged accounts will be reviewed annually to ensure that all accounts over \$1,000 were submitted to the SCO. These new procedures will be documented by December 31, 2005.

PURCHASING

Campus procurement card procedures were not enforced to ensure that all purchases were appropriate, adequately documented, and properly approved.

A review of procurement card statements dated between December 2004 and January 2005 for ten individuals disclosed that:

- ▶ A purchase of materials totaling \$5,902 for a project associated with a job order contract was split into two purchase transactions, which effectively circumvented the cardholder's \$5,000 transaction limit.
- ▶ Purchases of a technical support service contract and catering services for four events held on campus were charged in conflict with campus policy.
- ▶ A purchase of renaissance benches totaling \$2,428 for the trellis dorms project was charged in conflict with campus policy.
- ▶ Four transactions totaling \$7,322 were processed without itemized supporting receipts.
- ▶ Two transactions were processed without posted approval via PaymentNet.

The California State University, Sacramento (CSUS) *Procurement Credit Card Procedures Manual* prohibits the use of procurement cards for services performed on the CSUS campus, scheduled and budgeted minor capital outlay projects or special repairs, and the splitting of purchases to circumvent the dollar limitation. It also requires original itemized receipts for all purchases and approving official approval of all transactions via PaymentNet.

The director of support services stated that the procurement card system was a shared responsibility between procurement services and accounts payable. He further stated that although both units administered the program, neither had primary responsibility for preventing non-compliant transactions.

Non-compliance with procurement card procedures increases the risk of loss from inappropriate acts.

Recommendation 4

We recommend that the campus enforce its procurement card procedures, including assignment of primary enforcement responsibility.

Campus Response

We concur. The procurement office was designated as having primary responsibility for enforcement of procurement card procedures, to include issuing sanctions as needed to enforce procurement card policy. This responsibility will be documented by December 31, 2005.

On a monthly basis, accounts payable office will identify charges that do not meet procurement card requirements, and provide that information to the procurement office to assist with enforcement. Both the procurement and accounts payable offices will work together to provide procurement card training to the campus community. These new procedures will be documented by December 31, 2005.

REVOLVING FUND

Travel and salary advances were not always recovered in a timely manner.

We found that:

- ▶ Four of fifteen travel advances reviewed issued between June 9, 2004, and October 1, 2004, were still outstanding as of February 2005. Collection activity had not been performed for three of the travel advances, and none of the advances had been deducted from the employees' payroll warrants, as required.
- ▶ All ten salary advances reviewed issued between January 31, 2003, and September 17, 2004, were not recovered within 60 days. Furthermore, no collection activity was performed for five of the advances, while collection efforts for the other five advances began more than 60 days after advance issuance. In addition, the campus did not compute federal withholding tax on the long-outstanding salary advances and remit the withheld taxes to the SCO as required.

CSU directive HR 2001-02, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated January 17, 2001, indicates that a travel expense claim (TEC) is required to be submitted to substantiate travel expenses within 60 days after the trip. 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. HR 2004-35 superseded HR 2001-02, effective December 10, 2004, and also includes the aforementioned requirements.

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.

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 §8595 states that if the Controller's warrant is not received by the agency within 30 calendar days following the issuance of the revolving fund advance, the agency must report the amount of the advance, compute federal withholding tax on the advance, and remit the withheld taxes to the SCO.

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

The supervisor of accounts payable stated that the November 2004 implementation of a new automated travel system significantly impacted personnel productivity, which resulted in the untimely reconciliations of travel advances. The manager of payroll services stated that salary advances were untimely recovered due to several reasons, including checks being inadvertently released to the employees by disbursement, payroll not entering time worked as an offset to the advance, and outdated training material. She added that repayment agreements had been established for four of the employees.

Insufficient control over travel and salary advances increases the risk that revolving fund monies are not available and reduces the likelihood of collection.

Recommendation 5

We recommend that the campus strengthen controls over the recovery of travel and salary advances.

Campus Response

We concur. The payroll manager, in cooperation with the collections manager, implemented a new procedure regarding the process of recovering salary advances. This new process and the related procedures will be documented by December 31, 2005.

The accounts payable supervisor amended the travel purchase order and implemented revised procedures regarding the collection of travel advances. By January 1, 2006, the travel advance policy and forms will be revised and implemented to include notification to employees of the right to collect past due travel advances by payroll deduction.

PAYROLL AND PERSONNEL

EMPLOYEE SEPARATION

Employee separation procedures did not ensure complete clearance documentation.

Our review of 15 employee separations during 2004 disclosed that clearance forms were not on file for five of the employees. All five of these employees were from academic departments. This is a repeat finding from the last two Financial Integrity and State Manager's Accountability Act (FISMA) reviews.

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

The manager of payroll services stated that academic departments were responsible for completion of checkout forms for part-time faculty members. She further stated that some departments apparently did not fully understand when it was necessary to complete and retain this form.

Insufficient administration of employee separations increases the risk of late wage payments, loss of state funds, and inappropriate use of state resources.

Recommendation 6

We recommend that the campus review and strengthen employee separation procedures to ensure complete clearance documentation.

Campus Response

We concur. The associate vice president for human resources will send a campus-wide memo to all academic departments on the employee separation procedures for part-time faculty by December 31, 2005.

UNDELIVERED WARRANTS

Undelivered salary warrants were not timely returned to the SFSC.

We found that 33 of 34 undelivered salary warrants were returned by departmental warrant officers to the SFSC from two business days to nine months late. Further, the SFSC had not developed procedures to notify departmental warrant officers when warrants were returned delinquent.

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

The director of the SFSC stated that returning undelivered salary warrants was the responsibility of departmental warrant officers, and periodic training had been conducted to inform them of this policy requirement.

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

Recommendation 7

We recommend that the campus strengthen procedures to ensure that departmental warrant officers timely return undelivered salary warrants to the SFSC.

Campus Response

We concur. SFSC modified procedures regarding the documentation of warrants returned to the SFSC. Additionally, SFSC will conduct follow-up with the warrant officers as needed, but not less than once a month for delinquent warrant return. Warrant officers were reminded of the return requirement and informed of the new procedures. These actions were completed during September 2005.

ADDITIONAL EMPLOYMENT

The campus had not adequately documented procedures for monitoring compliance with the CSU *Additional Employment Policy*.

Although human resources had communicated the CSU *Additional Employment Policy* and an approval process for personnel wishing to engage in additional employment to the campus, procedures had not been established to formally monitor and document compliance with the policy.

Articles 36.1 and 36.4 of the *Collective Bargaining Agreement between the CSU Board of Trustees and the California Faculty Association*, for May 14, 2002, through June 30, 2004, indicate that additional employment shall refer to any employment compensated by CSU, funded by the General Fund or non-general funds including CSU auxiliaries, that is in addition to the primary or normal employment of a faculty unit employee. The total additional employment of a faculty unit employee shall not exceed a total of 25 percent overage. Overage is calculated as a percentage of full-time workload or, when appropriate, full-time time base.

CSU directive HR 2002-05, *Additional Employment Policy*, dated February 19, 2002, indicates that each campus is responsible for determining the extent of an employee's CSU workload prior to appointment to any position. It further indicates that campuses are responsible for developing appropriate guidelines for implementation of the systemwide additional employment policy and for developing procedures for prior approval and monitoring of all additional employment.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, requires each campus to develop a process for monitoring employment and comply with the limits established by the CSU additional employment policy.

The associate vice president of human resources stated that appropriate personnel had an understanding of the policy guidelines and the campus had a process in place however, the procedures for faculty and staff additional employment had not been documented. She added that procedures concerning additional employment for individuals in the Management Personnel Plan had been documented and distributed.

The absence of documented and effectively communicated operational procedures for monitoring additional employment increases the risk of excessive employment overage and non-compliance with the collective bargaining agreement.

Recommendation 8

We recommend that the campus document procedures for monitoring all additional employment and distribute the procedures to all employees responsible for the process.

Campus Response

We concur. The campus will develop written protocols and procedures for monitoring additional employment. This information will be distributed to affected campus and auxiliary offices by January 17, 2006.

FIXED ASSETS

Property acquisitions were not always recorded into the accounting records in a timely manner.

Our review of ten property acquisitions between July 2004 and October 2004 disclosed that in five instances, property was recorded into the accounting records between 102 to 146 days after receipt.

SAM §8650 requires departments to record specific property information when property is acquired. In addition, departments will keep track of state property, whether capitalized or not, in an automated property accounting system.

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 manager of procurement and contract services stated that the retirement and subsequent training of the property accounting supervisor contributed to the recording delays. He added that personnel were also involved with the conversion to the new PeopleSoft Asset Management Module (AMM), which occurred in November 2004.

Untimely recording of fixed asset acquisitions increases the risk of misstated property records and theft or loss of state property.

Recommendation 9

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded in a timely manner.

Campus Response

We concur. Business operations will review and revise current procedures to strengthen the timely recording of fixed asset acquisitions. This will be completed by January 1, 2006.

FISCAL INFORMATION TECHNOLOGY

PRODUCTION DATA ACCESS

Both the authorization process for, and the monitoring controls over, modification to production PeopleSoft data, were in need of improvement.

The existing authorization process was performed by an individual that also had the capability to perform updates to production PeopleSoft data, and there was no process for reconciling actual changes to authorized changes.

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

The business systems manager stated that guidelines had not yet been established for monitoring the use of production Oracle accounts.

Inadequate control over access to and monitoring of changes to production data increases the risk of unauthorized and undetected modifications.

Recommendation 10

We recommend that the campus ensure that:

- a. Access to modification of production PeopleSoft data is properly authorized.
- b. There is a process for reconciling actual changes of PeopleSoft data to authorized changes.

Campus Response

We concur. Administrative services will implement a process by November 30, 2005, whereby all access to make modifications to production PeopleSoft data is properly authorized, and a reconciliation of actual changes to authorized changes is performed.

PEOPLESOFT ACCESS PRIVILEGES

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

We found that:

- ▶ Consultants had been granted “all panels” privileges.
- ▶ Unused roles had not been removed.
- ▶ Some individuals had been given privileges to the purchasing and accounts payable modules, which were not compatible with their assigned duties.
- ▶ Three departments had update access to vendor information. Although a report of vendor master file changes was produced and reviewed weekly, the campus did not have documented procedures for this process.

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

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

The business systems manager stated that the system had been recently implemented, and the privileges that were set up for pre-production had not yet been reevaluated.

Failure to properly limit access privileges increases the risk of fraudulent or unauthorized activities.

Recommendation 11

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

- a. Reduce the number of individuals granted “all panels” privileges.
- b. Remove unused roles and permissions.
- c. Remove individual privileges to multiple application modules incompatible with their assigned duties.

- d. Develop documented procedures for the review of changes to the vendor master file to ensure that all vendor changes are authorized and appropriate.

Campus Response

We concur. By November 30, 2005, business information services (BIS) will establish unique roles for production processing, development, and security; thereby, reducing the number to two individuals granted “all panels” privileges in production. Additionally, BIS will remove all identified unused roles and permissions.

By January 31, 2006, responsibilities for the vendor master file and the conversion of travel requisitions to travel purchase orders will be reassigned and transitioned to the procurement office to ensure the proper segregation of duties. The system privileges for updating the vendor file and conversion of travel requisitions to travel purchase orders will be removed from accounts payable staff.

PEOPLESOFT IMPLEMENTATION

ASSET MANAGEMENT MODULE CONVERSION

Acquisition dates for existing property records were not accurately converted during system conversion to the PeopleSoft AMM in November 2004.

Property record acquisition dates from the prior Property Management System (PMS) to the new PeopleSoft AMM did not accurately carry-over asset acquisition dates due to incompatible date fields. The PMS date field was MM/YY versus MM/DD/YY for the AMM. All asset acquisition dates were erroneously converted into a 01/MM/YY date field in the AMM, which resulted in recording all acquisitions as received in January of the respective year. Any assets with acquisitions dates in the first half of the fiscal year (July to December) were assigned acquisition dates in the latter half (January) of the prior fiscal year. The PMS to AMM conversion included 1,913 capitalized assets of which 545 were assigned improper acquisition dates in the prior fiscal year and were still being depreciated. Acquisition date corrections were made only to the AMM asset records (but not to book values on depreciation schedules), which would not affect future depreciation calculations, or reverse the incorrect first year depreciation calculations. The anticipated impact of the conversion errors on 2004/05 CSUS financial statements was determined to be immaterial due to the corrections completed during the audit.

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

The manager of procurement and contract services stated that during development, testing, and conversion, the systems analyst and functional users did not observe that the date field was not properly formatted, primarily due to daily workload constraints coupled with additional PeopleSoft conversions occurring at the same time.

Insufficient control over system conversions increases the risk of data conversion errors and misstated financial records.

Recommendation 12

We recommend that the campus strengthen procedures to ensure that system conversions are sufficiently monitored, including a review for data accuracy subsequent to full implementation/conversion.

Campus Response

We concur. By November 30, 2005, administrative services will issue a memo to all appropriate personnel regarding the need to ensure that system conversions are sufficiently monitored, including a review for data accuracy subsequent to full implementation/conversion.

ACCOUNTING RECONCILIATIONS

Certain reconciliations were untimely prepared.

We found that:

- ▶ Application fee reconciliations for the four semesters between fall 2002 and spring 2004 were completed from 47 to 231 days after the end of the academic term.
- ▶ State university fee reconciliations for the four semesters between fall 2002 and spring 2004 were completed from 36 to 168 days after the end of the academic term.
- ▶ Accounts receivable subsidiary ledger reconciliations to the general ledger for the months of October, November, and December 2004 were not completed until February 2005.

SUAM §3825.01 requires that a reconciliation of applications for admission to fees received be prepared one month after the end of each academic year term.

SUAM §3825.02 requires that a reconciliation of state university fees to the census date report relative to the number of students accounted for on the census date be prepared one month after the end of each academic term.

SAM §7901 requires monthly preparation of all reconciliations within 30 days of the preceding month.

The director of accounting services stated that the lateness of reconciliations was primarily the result of extensive staff involvement in two PeopleSoft conversions that occurred during this audit period. She further stated accuracy over timeliness of reconciliations was emphasized, and while the initial reconciliation was generally completed within the timing guidelines, staff continued to identify and resolve specific differences, and worked with various departments to obtain needed information to properly complete reconciliations.

Untimely completion of reconciliations limits the campus' ability to detect errors and irregularities.

Recommendation 13

We recommend that the campus strengthen procedures to ensure that all reconciliations are timely prepared.

Campus Response

We concur. Accounting services created a supervisor's checklist identifying all reconciliations and the related due dates. The use of this checklist will be assigned to accounting staff and managers for implementation by December 1, 2005. All reconciliations will be current by January 31, 2006.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Alexander Gonzalez	President
Jennifer Barrett	Accounting Technician
Kendal Chaney-Buttleman	Supervisor of General Accounting
Mike Cooling	Manager of University Computing and Communication Services
Angela Dunkle	Administrative Services Manager, College of Continuing Education (CCE)
Gina Feliciano	Director, Student Financial Services Center
Marc Fox	Administrative Computing Technical Support
Christina Galeste	Director of Administrative Operations, CCE
Stephen Garcia	Vice President for Administration
Ronald Grant	Director of Support Services
Leticia Guerrero	Supervisor of Payroll
Justine Heartt	Director of Accounting Services
Susan Johnson	Supervisor of Accounts Payable
Norman Kwong	Cash Accounting Technician
Elena Larson	Supervisor of Collections
Clint Lee	Business Systems Manager, Management Services
Stewart McConnell	Management Auditor
Kathi McCoy	Director of Auditing Services
Gary McFarland	Operations and Network Support Coordinator
Teresa Mills	Manager of Payroll Services
Janet Morris	Buyer and Procurement Card Program Administrator
Sheila Orman	Associate Vice President for Human Resources
Barbara Oseto	Administrative Analyst, Student Affairs
Carolyn Pittman	Interim Associate Vice President for Finance
David Proschold	OneCard System Administrator
Jay Rutherford	Accounts Payable Travel Coordinator
Joe Santinello	Business Systems Analyst
Fausta Saucedo	Director of Financial Services, CCE
Stephen Scalley	GAAP Accountant
Darlene Scates	User Support Supervisor, Management Services
David Shannon	Manager of Procurement and Contract Services
Nicole Sharkey	Accounting Technician
LaVerne Simmons-Barnett	Legal Accountant
Brian Smyth	Manager of Administrative Computing
Andrea Speir	Financial Services Coordinator, CCE
Krista Valledor	OneCard Customer Service Supervisor
Lori Varlotta	Associate Vice President for Student Affairs (Campus Life)
Thurman Watson	Property Accounting Supervisor

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.

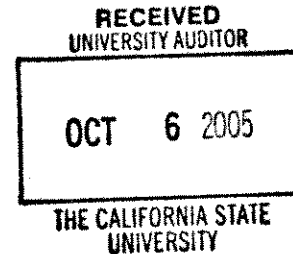


CALIFORNIA STATE UNIVERSITY, SACRAMENTO

OFFICE OF THE VICE PRESIDENT FOR ADMINISTRATION

October 4, 2005

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



Subject: Campus Response to Recommendations of FISMA Audit, Report #04-12

Dear Mr. Mandel:

We submit the attached document as our response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen G. Garcia".

Stephen G. Garcia
Vice President for Administration

Attachment

cc: A. Gonzalez
R. Grant
S. Green
K. McCoy
C. Pittman
A. Tom
D. Wagner

FISMA
CALIFORNIA STATE UNIVERSITY,
SACRAMENTO

REPORT NUMBER 04-12

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Localize accountability for cash receipts at the OneCard office and implement the use of unique IDs.
- b. Ensure that safes at the OneCard and CCE non-credit offices remain locked when not in use during normal operating hours.

Campus Response

We concur.

- a. OneCard staff will be given additional instruction in accountability for cash receipts, as well as the importance and requirement to use their unique IDs when accessing cash drawers. This will be completed by November 1, 2005.
- b. Written instructions will be issued to the OneCard staff to keep the office safe closed and locked at all times when it is not in use. This will be completed by November 1, 2005. In addition, a sign has been placed on the door of the safe as a reminder to keep the safe closed and locked when not in use.

CCE revised its practice of securing its safe for cash receipts. The safe is locked during the day, and is located in a private locked office, which has limited access. This task was completed during September 2005.

ACCOUNTS RECEIVABLE

DELINQUENT ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus strengthen procedures over payroll and student accounts receivable to ensure that these accounts receivable are promptly pursued for collection or tax offset, including proper debtor notice prior to tax offset.

Campus Response

We concur. The Payroll Manager, in cooperation with the Collections Manager, implemented a new procedure regarding the collection of payroll accounts receivables. This new process and the related procedures will be documented by December 31, 2005.

The Student Financial Services Center revised the collection procedures to ensure documentation of verification activity, and to include a random file audit process to assure compliance. A copy of the tax offset notification report is retained to verify and document that proper notice was provided. This task was completed during September 2005.

BAD DEBT WRITE-OFF**Recommendation 3**

We recommend that the campus strengthen procedures to ensure that an application for discharge from accountability is made to the SCO for write-offs greater than \$1,000.

Campus Response

We concur. Collection procedures for accounts over \$1,000 were revised to ensure the proper submission of forms to the SCO. Additionally, all discharged accounts will be reviewed annually to ensure that all accounts over \$1,000 were submitted to the SCO. These new procedures will be documented by December 31, 2005.

PURCHASING**Recommendation 4**

We recommend that the campus enforce its procurement card procedures, including assignment of primary enforcement responsibility.

Campus Response

We concur. The Procurement Office was designated as having primary responsibility for enforcement of procurement card procedures, to include issuing sanctions as needed to enforce procurement card policy. This responsibility will be documented by December 31, 2005.

On a monthly basis, Accounts Payable Office will identify charges that do not meet procurement card requirements, and provide that information to the Procurement Office to assist with enforcement. Both the Procurement and Accounts Payable Offices will work together to provide procurement card training to the campus community. These new procedures will be documented by December 31, 2005.

REVOLVING FUND**Recommendation 5**

We recommend that the campus strengthen controls over the recovery of travel and salary advances.

Campus Response

We concur. The Payroll Manager, in cooperation with the Collections Manager, implemented a new procedure regarding the process of recovering salary advances. This new process and the related procedures will be documented by December 31, 2005.

The Accounts Payable supervisor amended the travel purchase order and implemented revised procedures regarding the collection of travel advances. By January 1, 2006, the travel advance policy and forms will be revised and implemented to include notification to employees of the right to collect past due travel advances by payroll deduction.

PAYROLL AND PERSONNEL

EMPLOYEE SEPARATION

Recommendation 6

We recommend that the campus review and strengthen employee separation procedures to ensure complete clearance documentation.

Campus Response

We concur. The Associate Vice President for Human Resources will send a campus-wide memo to all academic departments on the employee separation procedures for part-time faculty by December 31, 2005.

UNDELIVERED WARRANTS

Recommendation 7

We recommend that the campus strengthen procedures to ensure that departmental warrant officers timely return undelivered salary warrants to the SFSC.

Campus Response

We concur. Student Financial Services Center modified procedures regarding the documentation of warrants returned to the SFSC. Additionally, SFSC will conduct follow-up with the warrant officers as needed, but not less than once a month for delinquent warrant return. Warrant officers were reminded of the return requirement and informed of the new procedures. These actions were completed during September 2005.

ADDITIONAL EMPLOYMENT

Recommendation 8

We recommend that the campus document procedures for monitoring all additional employment and distribute the procedures to all employees responsible for the process.

Campus Response

We concur. The campus will develop written protocols and procedures for monitoring additional employment. This information will be distributed to affected campus and auxiliary offices by January 17, 2006.

FIXED ASSETS

Recommendation 9

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded in a timely manner.

Campus Response

We concur. Business Operations will review and revise current procedures to strengthen the timely recording of fixed asset acquisitions. This will be completed by January 1, 2006.

FISCAL INFORMATION TECHNOLOGY

PRODUCTION DATA ACCESS

Recommendation 10

We recommend that the campus ensure that:

- a. Access to modification of production PeopleSoft data is properly authorized.
- b. There is a process for reconciling actual changes of PeopleSoft data to authorized changes.

Campus Response

We concur. Administrative Services will implement a process by November 30, 2005 whereby all access to make modifications to production PeopleSoft data is properly authorized, and a reconciliation of actual changes to authorized changes is performed.

PEOPLESOFT ACCESS PRIVILEGES

Recommendation 11

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

- a. Reduce the number of individuals granted “all panels” privileges.
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- c. Remove individual privileges to multiple application modules incompatible with their assigned duties.

- d. Develop documented procedures for the review of changes to the vendor master file to ensure that all vendor changes are authorized and appropriate.

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PEOPLESOFT IMPLEMENTATION

ASSET MANAGEMENT MODULE CONVERSION

Recommendation 12

We recommend that the campus strengthen procedures to ensure that system conversions are sufficiently monitored, including a review for data accuracy subsequent to full implementation/conversion.

Campus Response

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ACCOUNTING RECONCILIATIONS

Recommendation 13

We recommend that the campus strengthen procedures to ensure that all reconciliations are timely prepared.

Campus Response

We concur. Accounting Services created a supervisor’s checklist identifying all reconciliations and the related due dates. The use of this checklist will be assigned to Accounting staff and managers for implementation by December 1, 2005. All reconciliations will be current by January 31, 2006.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

October 14, 2005

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed".

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 04-12 on *FISMA*,
California State University, Sacramento

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of October 14, 2005, I accept the response as submitted with the draft final report on *FISMA*, California State University, Sacramento.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Alexander Gonzalez, President
Ms. Kathi McCoy, Director, Auditing Services

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS