

FISMA

**CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE**

**Audit Report 08-01
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ABBREVIATIONS

CFO	Chief Financial Officer
CSU	California State University
CSUN	California State University, Northridge
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
FY	Fiscal Year
GC	Government Code
HR	Human Resources
IA	Intercollegiate Athletics
PTS	Parking and Transportation Services
SAM	State Administrative Manual
SCO	State Controller's Office
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, Northridge (CSUN) 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 CSUN campus from January 22, 2008, through March 7, 2008, and made a study and evaluation of the accounting and administrative control in effect as of March 7, 2008. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, fixed assets, and information technology. Three of the 16 findings were repeats from prior FISMA audits and two of these findings were also included in the September 27, 2004, FISMA audit report. 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, CSUN's accounting and administrative control in effect as of March 7, 2008, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CASH RECEIPTS [8]

At parking and transportation services (PTS), the reconciliation of parking permit inventory to cash receipts and by decal number was not adequate to ensure accountability of revenues received versus permits sold at different price breaks throughout the semester. This is a repeat finding from the prior FISMA audit. In addition, checks at PTS were not endorsed before being placed in the safe for overnight storage and at intercollegiate athletics, the person responsible for opening incoming mail did not prepare a prelisting of cash and checks received not payable to the university. Lastly, application and state university fee reconciliations were not always timely prepared and complete and was a repeat finding from the prior two FISMA audits.

ACCOUNTS RECEIVABLE [11]

Billings to external organizations for services rendered were not always timely submitted for invoicing. This is a repeat finding from the prior two FISMA audits. In addition, accounts receivable were not always recorded in the general ledger for outstanding parking citations. Collection activity had not been performed timely for external/trade receivables as well as for active and separated employees. This is a repeat finding from the two prior FISMA audits. Further the campus was not able to provide documentation of management approval for write-offs of employee receivables under \$1,000, campus procedures for payroll write-offs of long-outstanding accounts were not formally established or documented, and the campus had identified over 100 student receivables over \$1,000 eligible for write-off that were not submitted to the State Controller's Office for discharge of accountability. Lastly, the campus lacked a current cost allocation plan for reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations.

OPERATING FUND [16]

A review of 12 salary advances issued between January 2006 and September 2007 disclosed that four were not cleared in a timely manner.

PAYROLL AND PERSONNEL [17]

Federal Form I-9, Employment Eligibility Verification, was not always timely completed. In addition, separated employees were not always paid their final wages in a timely manner.

FIXED ASSETS [19]

Thirty of 37 items of sensitive equipment valued between \$2,000 and \$5,000, and one of five capitalized property items reviewed had not been tagged.

INFORMATION TECHNOLOGY [20]

Password settings were not used in the PeopleSoft human capital management system and the permissions granted in the PeopleSoft system were not consistent with current job responsibilities. Also, a project to identify and secure sensitive data had not been completed and there was no process to ensure that information security training had been administered to all faculty and staff.

TRUST FUNDS [22]

In 14 instances, trust fund agreements were not timely approved by the controller. Further, trust fund expenditures were not always properly incurred or approved by an authorized individual.

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 bear 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 objective was to assess the adequacy of controls and systems to ensure that:

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Operating fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.

- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2005/06 and 2006/07 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was January 1, 2006 to September 30, 2007. Our primary focus was on internal controls. Specifically, we reviewed and tested:

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

INTRODUCTION

We have not performed any auditing procedures beyond March 7, 2008. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash control weaknesses were found at two of the three satellite cashiering areas visited. One control issue noted below was a repeat from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

The satellite cashiering locations reviewed included parking and transportation services (PTS), intercollegiate athletics (IA), and Center on Disabilities.

Parking and Transportation Services

The reconciliation of parking permit inventory to cash receipts and by decal number was not adequate.

- ▶ Our review of the reconciliation of parking permits inventory disclosed that the current parking permit reconciliations completed by PTS were not adequate to ensure accountability of revenues received versus permits sold at different price breaks throughout the semester. This is a repeat finding from the prior FISMA audit.
- ▶ Checks were not endorsed before overnight storage in the safe.

State Administrative Manual (SAM) §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications and requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

SAM §8034.2 states that agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received. Timely endorsements serve to discourage the use of lost or stolen negotiable instruments by someone other than the state agency.

The captain of PTS stated that adequately reconciling parking permit inventory had been complicated by the need to account for prorated sales and returns. Additionally, he stated that checks were not endorsed due to oversight.

Intercollegiate Athletics

The person responsible for opening incoming mail at IA did not prepare a prelisting of cash and checks received not payable to the university.

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

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

SAM §20050 states that the elements of a satisfactory system of accounting and administrative control shall include, in part, a plan that limits access to state assets to authorized personnel who require these assets in the performance of assigned duties. Further, internal accounting controls comprise the methods and procedures directly associated with safeguarding assets.

The assistant athletics director of business affairs stated that due to personnel changes in the business office, they were unaware that a prelisting of cash and checks not payable to the university needed to be maintained.

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

Recommendation 1

We recommend that the campus:

- a. Prepare documented reconciliations of parking permits issued to revenue recorded in the general ledger.
- b. Establish and implement procedures to endorse checks before placing in the safe for overnight storage at PTS.
- c. Establish procedures to prepare a prelisting of cash and checks received at IA that are not payable to the university.

Campus Response

We concur.

- a. A reconciliation of parking permits sold in the parking office will be performed on a daily basis. Expected implementation date: October 1, 2008
- b. A memorandum was sent to all PTS front office personnel that reiterates the requirement to endorse checks on the day received.
- c. IA has not received any checks not payable to the university. If any such checks are received by IA, they will be listed in accordance with the existing campus policy.

FEE RECONCILIATIONS

Application and state university fee reconciliations were not always timely prepared and complete. This is a repeat finding from the prior two FISMA audits.

Our review of reconciliations for the spring 2006 to summer 2007 terms disclosed that:

- ▶ Application fee reconciliations were not timely prepared and were completed on an annual basis rather than a semester basis. The last completed reconciliation was for the period of July 1, 2006, to June 30, 2007, and was completed on January 11, 2008.
- ▶ State university fee reconciliations were not timely prepared or complete. Our review of state university fee reconciliations for the five semesters between spring 2006 and summer 2007, disclosed that in four instances, fee reconciliations were not prepared and/or approved within one month after the end of the academic term. The reconciliations were prepared between 85 and 226 days after their due dates. In three instances, the reconciliations were not signed by the preparer and reviewer.

State University Administrative Manual (SUAM) §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year term and maintained on file by each campus. The reconciliations should be completed one month after the end of the academic term being reconciled.

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.

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

The university controller and associate vice president stated that application fee reconciliations were not completed in a timely manner because it was determined that data was either insufficient or non-existent to adequately prepare a meaningful reconciliation on a semester basis. He further stated that the state university fee reconciliations were not always completed in a timely manner because of data resourcing issues and due to staff turnover (including supervisory), some reconciliations were inadvertently delayed. He added that the lack of a preparer and reviewer signature and date was an oversight.

Failure to reconcile fees in a timely and complete manner increases the risk that errors and irregularities will not be detected and compromises accountability.

Recommendation 2

We recommend that the campus prepare application and state university fee reconciliations in a timely and complete manner for each academic term.

Campus Response

We concur. The university controller's office will create and maintain a log of fee reconciliations to ensure their timely completion.

Expected completion date: October 3, 2008

ACCOUNTS RECEIVABLE

BILLINGS FOR SERVICE

Billings to external organizations for services rendered were not always timely submitted for invoicing. This is a repeat finding from the prior two FISMA audits.

Our review of 14 invoices issued between January 2006 and September 2007 disclosed that two invoices were prepared 127 and 553 days after the services were provided.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

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

The university controller and the associate vice president stated that efforts to secure voluntary compliance following the previous FISMA audit finding resulted in more timely submissions; however, those efforts did not achieve full compliance.

Failure to timely invoice outstanding obligations reduces working capital and the likelihood of collecting funds.

Recommendation 3

We recommend that the campus timely prepare and send billings to external organizations for services rendered.

Campus Response

We concur. The university controller has reiterated the requirement that invoices must be issued within 30 days of completion of the services. An additional control has been implemented that requires written justification and university controller approval before late submissions will be invoiced.

PARKING CITATIONS

Accounts receivable were not always recorded for outstanding parking citations on the general ledger.

A parking citation general ledger control account total had not been established in campus accounting records for both undisputed fines past the statutory time allowed for dispute and disputed fines deemed legally enforceable. At February 20, 2008, the unadjusted balance of outstanding parking citations issued from January 2000 to October 2007 totaled \$1,318,093 and the adjusted balance was \$1,003,298. In addition, after campus efforts and expiration of the Department of Motor Vehicles hold, an external collection agency, Sequoia, performed and maintained collections of parking citation revenue and reported collections to PTS. However, PTS did not reconcile the Sequoia data to PTS data.

Governmental Accounting Standards Board Comprehensive Implementation Guide, 2007, Chapter Z: Z.33.10, states that undisputed fines should be recognized when payments are made or when the statutory time allowed for dispute lapses, whichever occurs first. Disputed fines should be recognized when the appropriate legal authority (for example, traffic court) rules that the fine is valid (legally enforceable) and should be recognized net of estimated refunds from rulings overturned on appeal. Paragraph 17 of Statement 33 requires governments to recognize assets from imposed non-exchange revenue transactions in the period when an enforceable legal claim to the assets arises or when resources are received, whichever occurs first. Paragraph 18 requires revenue to be recognized, net of estimated refunds, in the same period that the assets are recognized unless the enabling legislation includes time requirements. Legal enforceability generally occurs when the parties pay their fines, when the statutory time allowed for dispute lapses, or, if disputed, when a court later rules that the fine is enforceable.

The California State University, Northridge (CSUN) policy for parking citations states that parking fines must be paid or an appeal must be filed within 21 days of the issuance of a citation or 14 days of the mailing of a Notice of Delinquent Parking Violation.

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications.

SAM §7920 states that each agency is responsible to complete any reconciliation necessary to safeguard state assets and ensure reliable financial data.

The university controller and associate vice president stated that since parking citations have been accounted for on a cash basis, accounts receivables were not established in campus accounting records.

Inadequate control over parking citation receivables increases the risk that the receivables will not be properly reflected in campus accounting records, errors and irregularities will not be detected, and accountability will be compromised.

Recommendation 4

We recommend that the campus record outstanding parking citation accounts receivable in the campus accounting records.

Campus Response

We concur. A written procedure has been implemented that requires outstanding citations be recorded by year-end. The entry for fiscal year (FY) 2007/08 was booked June 23, 2008.

DELINQUENT ACCOUNTS RECEIVABLE

The process for the pursuit of delinquent external/trade and payroll accounts receivables needed improvement.

Our review of student, external, separated, and active employee accounts receivables as of September 30, 2007, disclosed the following:

- ▶ Timely collection activity had not been performed for 8 of 11 external/trade receivables reviewed. Collection letters were initiated between 2.5 months to three years after the initial invoice date.
- ▶ Timely collection activity had not been performed for 11 of 20 and 5 of 5 delinquent accounts receivables reviewed for active and separated employees, respectively. Collection efforts for active employee accounts were initiated between 98 to 2,166 days after the initial invoice date, while collection efforts for separated employee accounts were initiated between 171 to 1,991 days after the initial invoice date. This is a repeat finding from the prior two FISMA audits.
- ▶ Payroll receivables totaled \$223,012, which included \$198,591 (89%) greater than 120 days old.

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.

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

The assistant director of financial accounting and reporting stated that the accounts receivable staff believed that phone calls and e-mails would have resulted in collections in these cases and due to oversight collections letters were not sent. The manager of employee relations and workers' compensation indicated this has been an area of significant effort since March 2007 and resolution of

these delinquent accounts receivable for active and separated employees had been hampered by an inconsistent application of internal and state guidelines due to employee turnover and incomplete training.

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

Recommendation 5

We recommend that the campus perform timely collection efforts after the establishment and/or invoicing of delinquent external/trade and payroll accounts receivables and if necessary, take immediate action including write-off of significantly aged accounts.

Campus Response

We concur. For external/trade accounts receivable, written procedures have been revised to clarify when amounts become delinquent and what actions are required for collection or write-off.

WRITE-OFFS

Write-off of long-outstanding accounts receivable needed improvement.

We found that:

- ▶ The campus was not able to provide documentation of management approval for write-offs of employee receivables under \$1,000. Additionally, campus procedures for payroll write-offs of long-outstanding accounts were not formally established or documented.
- ▶ The campus had submitted eight delinquent student accounts receivable to the State Controller's Office (SCO) for discharge of accountability; however, as of February 13, 2008, the campus identified 116 additional student accounts receivables over \$1,000 that were also eligible for write-off and not submitted to the SCO. These student receivables amounted to \$284,888 and were established between 1992 through 2005. Prior to June 2007, the last campus request to the SCO for discharge of accountability for delinquent student accounts receivable was November 1999.

Executive Order (EO) 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts as outlined in SAM §8776.6, which includes collection procedures that assure prompt follow-up on receivables. Authority is also delegated to the campus for local adjustments of up to \$1,000 that are determined to be uncollectible or where the amount does not justify the collection costs.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including a sequence of three collection letters at 30-day intervals with a

progressively stronger tone and specific requirements for filing applications for Discharge From Accountability (form STD. 27) with the SCO.

The assistant director of financial accounting and reporting stated that documentation indicating management approval was not consistently retained. The assistant director of financial services and tax stated that the campus submitted a small number of accounts for discharge of accountability to the SCO on several occasions; however, the SCO rejected the submissions due to minor technical reporting issues.

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

Recommendation 6

We recommend that the campus establish procedures to periodically review long-outstanding accounts receivable for write-off, including specific guidelines, approvals, and time frames and ensure that all accounts receivable deemed uncollectible are written-off in a timely manner.

Campus Response

We concur. Existing procedures regarding the write-off of student accounts receivable will be reviewed and updated/revised, as necessary, in accordance with best business practices of the university, SAM, and SCO requirements.

Expected completion date: October 3, 2008

COST ALLOCATION PLAN

The campus lacked a current cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations.

The most recent campus cost allocation plan completed was for FY 2003/04, which the campus was applying to current transactions.

EO 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus chief financial officer (CFO) or designee shall annually approve and implement the cost allocation plan.

The university controller and associate vice president stated that the plan had not been updated due to significant turnover in the CFO position.

The absence of an approved cost allocation plan increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

Recommendation 7

We recommend that the campus prepare a current cost allocation plan.

Campus Response

We concur. The university controller's office will develop a spreadsheet reflecting operating fund cost recovery for goods and services to be approved by the vice president of administration and finance/CFO.

Expected completion date: September 30, 2008

OPERATING FUND

Salary advances were not always cleared in a timely manner.

Our review of 12 salary advances issued between January 2006 and September 2007 disclosed that four salary advances were not cleared in a timely manner. One of the four salary advances was cleared in 140 days, another was cleared in 154 days, and the remaining two were still outstanding as of the audit date and since issuance on August 28, 2007.

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

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

The manager of employee relations and workers' compensation stated that due to employee turnover in key positions, the effectiveness of collection activity for employee salary advances was occasionally compromised.

Insufficient control over salary advances increases the risk that operating fund monies may not be available and reduces the likelihood of collection.

Recommendation 8

We recommend that the campus strengthen controls to improve the timely recovery of salary advances.

Campus Response

We concur. A written procedure has been implemented that requires repayment of salary advances prior to the release of the next pay warrant or direct deposit issued to the employee.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

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

Our review of 14 new hire transactions between January 2006 and September 2007 disclosed that in four instances, the Form I-9 was completed 5 and 16 days after employment began and not within three business days as required.

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

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

The associate director of human resources stated that the central human resources office is responsible for verifying employment eligibility but is dependent on departments sending new employees to the human resources office in a timely manner and that process has not always been followed.

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

Recommendation 9

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

Campus Response

We concur. Human resources will implement procedures to ensure that communications with campus departments will occur regarding their obligation to process documents timely. In addition, human resources will implement procedures to conduct compliance reviews. Issues of non-compliance will be escalated to the appropriate executive level.

Expected completion date: October 3, 2008

EMPLOYEE SEPARATIONS

Controls over employee separations required improvement.

Our review of 14 employee separations between January 2006 and September 2007 disclosed that in seven instances, separated employees were paid final wages between 5 and 37 days after separation and not within 72 hours from separation as required.

California Labor Code §201 and CSU directive HR 2003-15 states that an employee who resigns from employment must be paid wages earned no later than 72 hours from the date of separation. However, if the employee provides the employer at least 72 hours notice of his/her impending separation, he/she is entitled to owed wages at the time of separation. This includes the cash out of benefits (e.g., leave time on books) unless an employee submits a written request, at least five work days prior to his/her final day of employment, to defer all or a portion of accrued leave credits. The 72 hours is a continuous period that includes weekends and holidays.

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 associate vice president of human resources stated that employee turnover and incomplete documentation reduced the effectiveness of final settlements. The associate director of human resources indicated that some units of the university were inconsistent in timely submission of employee separation/clearance forms.

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

Recommendation 10

We recommend that the campus review and strengthen employee separation procedures to ensure separated employees receive final wages within 72 hours and clearance documentation is completed.

Campus Response

We concur. Human resources will implement procedures that require regular communications with department designees to ensure understanding of and compliance with the separation/clearance process. Timeliness issues will be addressed immediately and escalated to the appropriate executive level.

Expected completion date: October 3, 2008

FIXED ASSETS

Administration of fixed assets did not always ensure that property was properly tagged.

We found that:

- ▶ Thirty of 37 items of sensitive equipment valued between \$2,000 and \$5,000 reviewed had not been tagged.
- ▶ One of five capitalized property items reviewed had not been tagged.

CSUN Asset Management Standard Operating Procedure defines capital equipment as tangible or intangible non-consumable property with an acquisition cost of at least \$5,000 and non-capital equipment as tangible non-consumable property with an acquisition cost of at least \$2,000. The operating procedures state that capital and non-capital equipment will be barcoded before delivery to the accepting department. The barcode date will be included on the equipment record in the asset tracking system.

SAM §8651 indicates that all state property will be tagged after acquisition.

SAM §20050 states, in part, that the elements of satisfactory system of internal accounting and administrative controls include a system of recordkeeping procedures adequate to provide effective accounting control over assets.

The director of logistical services stated that all of the noted items had been properly tagged and documented upon receipt as reflected on the receiving documents; however, the tags had been removed at some time while in the possession of the owner department.

Insufficient control over property increases the risk of theft, loss, or unauthorized use of state property.

Recommendation 11

We recommend that the campus ensure that acquisitions are promptly tagged.

Campus Response

We concur. We have revised existing procedures to require all asset tags be placed only by asset management personnel. The procedures now include an annual, random, limited scope inventory of major and minor assets.

INFORMATION TECHNOLOGY

PEOPLESOFT PASSWORDS

Password settings were not used in the PeopleSoft human capital management system.

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

The director of application development services stated that they were awaiting a patch to the system that would allow the password features to be activated.

Password controls help ensure that unauthorized access to the system is minimized.

Recommendation 12

We recommend that the campus activate the password features in the PeopleSoft human capital management system to ensure that access to the system by technical personnel is properly controlled.

Campus Response

We concur. We have implemented additional password controls for the two-tier user access on the PeopleSoft human capital management system password control page including password history, password length, password special characters, password not matching the user ID, and maximum logon attempts. The majority of users already had such password features controlled through Lightweight Directory Access Protocol.

PEOPLESOFT ACCESS

The permissions granted in the PeopleSoft system were not consistent with current job responsibilities.

Specifically, we noted that a number of individuals had vendor maintenance access, and some individuals not designated to administer security had access to security functions.

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

The director of applications development services for the Common Management Systems project stated that the list of users with the ability to grant security was unusually large due to the transition of the access function responsibilities between information technology units.

Inappropriate system permissions could lead to unauthorized or inappropriate access.

Recommendation 13

We recommend that the campus assign permissions to only those individuals that require such access to perform their job duties.

Campus Response

We concur. The number of individuals that have vendor maintenance access has been reduced. Access approval procedures and periodic reviews of access are in place to ensure appropriate permissions are granted. Access to administer user security will be restricted to those individuals who require such access to perform their job duties.

Expected completion date: October 15, 2008

INFORMATION SECURITY OVERSIGHT

Certain aspects of information security administration were inadequate.

Specifically, we noted that:

- ▶ A project to identify and secure sensitive data had not been completed.
- ▶ There was no process to ensure that information security training had been administered to all faculty and staff.

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

The chief information officer stated that information security projects had been identified and significant efforts were underway at the time of the audit to provide security training and to identify sensitive information. She further indicated that security training presentations were held for CSUN deans and faculty chairs in August 2007 and for over 180 campus leaders from all campus divisions in November/December 2007. She did note, however, that with the current vacancy of the information security officer position, the campus had not yet been able to complete all of their desired information security projects.

Security practices that do not ensure campus-wide policy and compliance increase the risk of unauthorized exceptions and could compromise compliance with statutory information security requirements, while lack of a comprehensive system of information security management increases campus exposure to security breaches and the risk of inappropriate access to data.

Recommendation 14

We recommend that the campus complete the project to identify sensitive data.

Campus Response

We concur. A project to identify sensitive data throughout the university is underway.

Expected completion date: December 12, 2008

TRUST FUNDS

TRUST FUND ADMINISTRATION

Trust fund administration required improvement.

Our review of 21 trust funds disclosed that:

- ▶ In 14 instances, the trust fund agreements were not timely approved by the controller. Specifically, the agreements were signed between three to five months after completion of the forms.
- ▶ In one instance, a current trust fund agreement was not on file.

CSUN Trust Fund Policy states that a trust fund project is established through a completed trust fund project agreement with all appropriate requesting and approving signatures, including the university controller.

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

The finance and trust accounting manager stated that an unusually large volume of applications necessitated by the Revenue Management Program may have contributed to a delay in processing all agreements on a timely basis.

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

Recommendation 15

We recommend that the campus maintain complete trust fund documentation on file.

Campus Response

We concur. We have reviewed the trust account application form and related instructions. Changes will be implemented to simplify the form and clarify the roles and responsibilities of the individuals who sign the application.

Expected completion date: October 31, 2008

TRUST FUND EXPENDITURES

Trust fund expenditures were not always properly approved.

Our review of 25 trust fund expenditures dated between January 2006 and September 2007 disclosed that:

- ▶ In 12 instances, the expenditures were not approved by the individual designated as the authorized approving signatory per the corresponding trust fund agreement.
- ▶ In nine instances, the expenditures were not incurred by an individual designated with expenditure authorization per the corresponding trust fund agreement.

SAM §19440.1 provides that each trust account established shall be supported by documentation of the persons authorized to withdraw or expend funds, their specimen signatures, the purpose of the trust, and restrictions on the use of monies.

The university controller and associate vice president stated that the lack of approval may be attributed to the trust fund application form not clearly differentiating between approvers and initiators of transactions.

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

Recommendation 16

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

Campus Response

We concur. We have established procedures for imaging trust account application forms so they can be made available electronically to facilitate verification of authority to approve expenditures.

Expected completion date: October 31, 2008

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Jolene Koester	President
Hilary Baker	Chief Information Officer
Robert Barker	University Controller and Associate Vice President, Financial and Accounting Services
Jeffrey Barrow	Parking Enforcement Officer, Public Safety Parking
Mary Ann Cummins-Prager	Director, Center on Disabilities
John Darakjy	Assistant Director, Financial Services and Tax
Margo Dutton	Assistant Director, Financial Accounting and Reporting
Sharon Eichten	Director, Budget Planning and Management
Alfredo Fernandez	Captain, Parking Transportation Services
Robert Foldesi	Associate Vice President, Human Resources
Ana Gutierrez	Administrative Support Assistant, Parking and Transportation Services
Tamara Kotlyar	Accounting Technician II, Financial and Accounting Services Resource Management
Kevin Krzewinski	Director, Application Development Services
Howard Lutwak	Director, Internal Audit
Tom McCarron	Interim Vice President, Administration and Finance/CFO
Angela McHugh	University Accounts Receivable Supervisor
Vickie Metcalfe	Payroll Specialist Analyst, Office of Human Resources
Shen Milunovic	Student Accounting Supervisor, Student Accounting
Valerie Myers	Associate Director of Human Resources
Charlie Neff	Accounting Manager, Center on Disabilities
Marian Nobleza	Fund Accountant, Financial Accounting
Robin Patterson	Financial Accounting Manager, Financial Accounting
Janet Prezia	Special Consultant, Payroll
Barbara Raymond	Trust Accountant, Business Management
Judy Reyes	Manager, Accounts Payable
Mary Rueda	Manager, Purchasing and Contract Administration
Kimberly Siemen	Assistant Athletics Director for Business Affairs, Athletics
Jill Smith	Manager, Employee Relations and Workers' Compensation, Office of Human Resources
Geetha Thomas	Assistant Vice President, Resource Management, University Advancement Administration
Travis Thomas	Materials Manager, Receiving Campus Store
John Veatch	Finance and Trust Accounting Manager, Business Management
Jim Villar	Department of Public Safety, Financial Analyst
Bruce Weinstein	Director, Logistical Services

California State University
Northridge

Office of the Vice President
Administration and Finance

September 17, 2008

RECEIVED
UNIVERSITY AUDITOR

SEP 17 2008

THE CALIFORNIA STATE
UNIVERSITY

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

Subject: Campus Response to Recommendations of Audit Report Number 08-01
FISMA at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your letter of August 20, 2008. We have also sent this document via e-mail to adouglas@calstate.edu.

We have read the report including the observations and recommendations, and agree with them. Corrective action to implement all of the recommendations has been taken. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, Director of Internal Audit at (818) 677-7647.

We appreciate the recommendations to improve CSUN's systems of internal control.

Sincerely,



Tom McCarron
Vice President Administration and Finance
and CFO

Enclosures

cc: Dr. Jolene Koester, President
Howard Lutwak, Director of Internal Audit

FISMA

**CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE**

Audit Report 08-01

CASH RECEIPTS

SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Prepare documented reconciliations of parking permits issued to revenue recorded in the general ledger.
- b. Establish and implement procedures to endorse checks before placing in the safe for overnight storage at PTS.
- c. Establish procedures to prepare a prelisting of cash and checks received at IA that are not payable to the university.

Campus Response

We concur.

- a. A reconciliation of parking permits sold in the Parking Office will be performed on a daily basis. Expected implementation date: October 1, 2008.
- b. A memorandum was sent to all Parking and Transportation front office personnel that reiterates the requirement to endorse checks on the day received.
- c. Intercollegiate Athletics has not received any checks not payable to the university. If any such checks are received by Intercollegiate Athletics, they will be listed in accordance with the existing campus policy.

FEE RECONCILIATIONS

Recommendation 2

We recommend that the campus prepare application and state university fee reconciliations in a timely and complete manner for each academic term.

Campus Response

We concur. The University Controller's Office will create and maintain a log of fee reconciliations to ensure their timely completion. Expected completion date: October 3, 2008.

ACCOUNTS RECEIVABLE

BILLINGS FOR SERVICE

Recommendation 3

We recommend that the campus timely prepare and send billings to external organizations for services rendered.

Campus Response

We concur. The University Controller has reiterated the requirement that invoices must be issued within 30 days of completion of the services. An additional control has been implemented that requires written justification and University Controller approval before late submissions will be invoiced.

PARKING CITATIONS

Recommendation 4

We recommend that the campus record outstanding parking citation accounts receivable in the campus accounting records.

Campus Response

We concur. A written procedure has been implemented that requires outstanding citations be recorded by year-end. The entry for fiscal year 2007/08 was booked June 23, 2008.

DELINQUENT ACCOUNTS RECEIVABLE

Recommendation 5

We recommend that the campus perform timely collection efforts after the establishment and/or invoicing of delinquent external/trade and payroll accounts receivables and if necessary, take immediate action including write-off of significantly aged accounts.

Campus Response

We concur.

For external/trade accounts receivable, written procedures have been revised to clarify when amounts become delinquent and what actions are required for collection or write-off.

For payroll accounts receivable, a written procedure was implemented that provides guidelines for timely notice to employees and timely collection of payroll overpayments.

WRITE-OFFS

Recommendation 6

We recommend that the campus establish procedures to periodically review long-outstanding accounts receivable for write-off, including specific guidelines, approvals, and time frames and ensure that all accounts receivable deemed uncollectible are written-off in a timely manner.

Campus Response

We concur. Existing procedures regarding the write-off of student accounts receivable will be reviewed and updated/revised, as necessary, in accordance with best business practices of the university, State Administrative Manual and SCO requirements. Expected completion date: October 3, 2008.

COST ALLOCATION PLAN

Recommendation 7

We recommend that the campus prepare a current cost allocation plan.

Campus Response

We concur. The University Controller's Office will develop a spreadsheet reflecting Operating Fund cost recovery for goods and services to be approved by the Vice President for Administration and Finance/CFO. Expected completion date: September 30, 2008.

OPERATING FUND

Recommendation 8

We recommend that the campus strengthen controls to improve the timely recovery of salary advances.

Campus Response

We concur. A written procedure has been implemented that requires repayment of salary advances prior to the release of the next pay warrant or direct deposit issued to the employee.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Recommendation 9

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

Campus Response

We concur. Human Resources will implement procedures to ensure that communications with campus departments will occur regarding their obligation to process documents timely. In addition, Human Resources will implement procedures to conduct compliance reviews. Issues of non-compliance will be escalated to the appropriate executive level. Expected completion date: October 3, 2008.

EMPLOYEE SEPARATIONS

Recommendation 10

We recommend that the campus review and strengthen employee separation procedures to ensure separated employees receive final wages within 72 hours and clearance documentation is completed.

Campus Response

We concur. Human Resources will implement procedures that require regular communications with department designees to ensure understanding of and compliance with the separation/clearance process. Timeliness issues will be addressed immediately and escalated to the appropriate executive level. Expected completion date: October 3, 2008.

FIXED ASSETS

Recommendation 11

We recommend that the campus ensure that acquisitions are promptly tagged.

Campus Response

We concur. We have revised existing procedures to require all asset tags be placed only by Asset Management personnel. The procedures now include an annual, random, limited scope inventory of major and minor assets.

INFORMATION TECHNOLOGY

PEOPLESOFT PASSWORDS

Recommendation 12

We recommend that the campus activate the password features in the PeopleSoft human capital management system to ensure that access to the system by technical personnel is properly controlled.

Campus Response

We concur. We have implemented additional password controls for the two-tier user access on the PeopleSoft human capital management system "Password Control" page; including password history, password length, password special characters, password not matching the user id, and maximum logon attempts. The majority of users already had such password features controlled through LDAP.

PEOPLESOFT ACCESS

Recommendation 13

We recommend that the campus assign permissions to only those individuals that require such access to perform their job duties.

Campus Response

We concur. The number of individuals that have vendor maintenance access has been reduced. Access approval procedures and periodic reviews of access are in place to ensure appropriate permissions are granted.

Access to administer user security will be restricted to those individuals who require such access to perform their job duties. Expected completion date: October 15, 2008.

INFORMATION SECURITY OVERSIGHT

Recommendation 14

We recommend that the campus complete the project to identify sensitive data.

Campus Response

We concur. A project to identify sensitive data throughout the university is underway. Expected completion date: December 12, 2008.

TRUST FUNDS

TRUST FUND ADMINISTRATION

Recommendation 15

We recommend that the campus maintain complete trust fund documentation on file.

Campus Response

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TRUST FUND EXPENDITURES

Recommendation 16

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

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THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 16, 2008

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

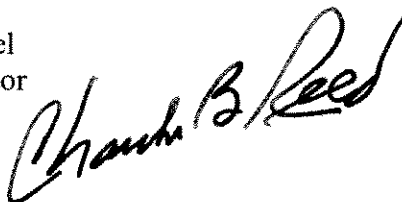
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 08-01 on *FISMA*,
California State University, Northridge

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 16, 2008, I accept the response as submitted with the draft final report on *FISMA*, California State University, Northridge.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Jolene Koester, President
Mr. Howard Lutwak, Director, Internal Audit
Mr. Tom McCarron, Interim Vice President, Administration and Finance and
Chief Financial Officer

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS