

FISMA

**CALIFORNIA STATE UNIVERSITY,
STANISLAUS**

**Audit Report 09-04
September 17, 2009**

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ABBREVIATIONS

CSU	California State University
CSU Stanislaus	California State University, Stanislaus
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
PS	PeopleSoft
SAM	State 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, Stanislaus (CSU Stanislaus) 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 CSU Stanislaus campus from April 6, 2009, through May 15, 2009, and made a study and evaluation of the accounting and administrative control in effect as of May 15, 2009. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the cashing function of the Stockton Center. This condition, along with other weaknesses, is described in the executive summary and body of this report.

In our opinion, except for the effect of the weakness described above, CSU Stanislaus' accounting and administrative controls in effect as of May 15, 2009, taken as a whole, were 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 the Stockton Center. Passwords to the PeopleSoft Finance system were not timely deleted upon employee separation.

ACCOUNTS RECEIVABLE [9]

Collection of student housing receivables was not performed. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

CASH DISBURSEMENTS [10]

Vendor data forms were not always maintained on file.

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 manner.
- ▶ Controls and/or control evaluations have little relationship to organizational exposure to risk of loss or resources.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2007/2008 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 December 2008 to March 2009. Our primary focus was on internal controls.

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

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

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Adequate segregation of duties regarding authorization and payment of cash disbursements and appropriate controls over campus vendors.
- ▶ Authorization and proper classification of personnel/payroll transactions.
- ▶ Establishment of trust funds, separate accounting, and adequate agreements.

We have not performed any auditing procedures beyond May 15, 2009. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

THE STOCKTON CENTER

Cash control weaknesses were found at the Stockton Center.

We found that:

- ▶ The doors to the main cashiering area, the vault, and the safe remained unlocked during business hours. The combination to the safe is viewable and can be changed from inside the safe door. In addition, a copier and several office supply areas reside within the vault, which makes it a high traffic area and accessible to unknown individuals.
- ▶ While the security camera system within the cashiering area was operable, the video feed was not being recorded.
- ▶ Transfer of custody receipts were not issued for parking permits that were transferred to the Stockton Center for sale or obtained when unused parking permits were returned to public safety for destruction.
- ▶ Duties and responsibilities related to cashiering were not properly segregated. In two of four days observed, the lead cashier worked a cash box and also performed the end-of-day reconciliation of all center cash.

State Administrative Manual (SAM) §8024 states that the following standards apply to safes and vaults housing either cash or valuable documents: the combination will be known to as few persons as possible consistent with operating requirements and the value of the cash or documents safeguarded.

SAM §8021 states that a separate series of transfer receipts will be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: receiving and depositing remittances, inputting receipts information, and reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions.

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

The interim vice president of business and finance stated that the lapses in controls were due to a lack of proper supervision.

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

Recommendation 1

We recommend that the campus:

- a. Immediately secure access and lock the doors to the main cashiering area, the vault, and the safe during business hours and relocate the copier and office supplies to another location to ensure that access to the vault is not compromised.
- b. Ensure that activities at the Stockton Center are recorded at all times for security purposes.
- c. Utilize appropriate receipts for transferring parking permits to/from the Stockton Center and public safety.
- d. Segregate cashiering duties from persons who perform end-of-day reconciliations, or implement compensating mitigating controls.

Campus Response

We concur. California State University (CSU), Stanislaus acknowledges the importance of safeguarding assets. The following steps have been taken in response to this recommendation.

- a. The access and doors to the main cashiering area at Stockton Center have been secured and will remain locked during business hours accessible only by authorized staff who require access due to their specific cashiering functions. The copier and office supplies have been relocated to another location to ensure that access to the vault will not be compromised.
- b. The security camera system within the cashier area is operable, video feed is being recorded and verified, and tape is changed each morning.
- c. Appropriate transfer receipts, STD440, will be used to transfer parking decals to and from the Stockton Center and Turlock cashiers beginning September 2009.
- d. Cashiering duties have been segregated from persons performing end-of-day cash drawer reconciliations. Oversight and verification of cash through cross-counting and document verification has been delegated to an on-site manager who does not take custody of the cash, does not receipt cash payments, and does not process reimbursements. In addition, this manager does not have access to the CASHNet system or to the cash vault. It is possible that other mitigating controls may be implemented resulting from the evaluation currently underway for remote site cash handling procedures.

In addition, the director of student financial services is conducting an evaluation of all remote site cash handling procedures which will result in improved day-to-day processes, written directives, roles and responsibilities of employees handling cash, oversight, and on-site unannounced audits.

PASSWORD CONTROLS

Passwords to the PeopleSoft (PS) Finance system were not timely deleted upon employee separation.

Although a monthly report is sent to department user access coordinators listing all separated employees, we noted that up to 31 days could lapse between the dates of employee separation to the access suspension date in PS Finance.

SAM §5300 states that agency management is responsible for ensuring appropriate physical, technical, and administrative controls are in place to support proper access to agency information assets.

The controller stated that the lapses in controls were due to a lack of proper supervision.

The failure to timely delete user access to systems upon separation increases campus exposure to loss from inappropriate acts.

Recommendation 2

We recommend that the campus delete passwords to the PS Finance system in a timely manner upon employee separation.

Campus Response

We concur. CSU Stanislaus acknowledges the importance of safeguarding assets including electronic data. The separated employee identified in this audit no longer has access to any systems; all related passwords have been removed. In addition, the clearance process for employee separations is currently under evaluation and changes have been made to procedures relative to electronic data security.

- a. A procedure is in place that directs a separating employee (State Administrative Manual §8580.4) through a clearance process including system access removal. A draft revision of this procedure is currently in review that will, among other things, better define the roles and responsibilities of those involved, including the responsibility of the supervisor in the completion of the clearance process. It is expected that this procedure will be in place by January 2010.
- b. The associate vice president of information technology has appointed an information security officer for the university and has developed relevant office of information technology procedures including remote computing, control of user access, protected data definitions, and information awareness training.

ACCOUNTS RECEIVABLE

Collection of student housing receivables was not performed.

Until March 2009, the student housing department did not have a system for generating collection letters for delinquent student housing receivables. As such, no collection efforts were performed for these accounts. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

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

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

The director of student financial services stated that the lapses in controls were due to a lack of supervision and were corrected with new software in March 2009.

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 3

We recommend that the campus monitor the effectiveness of the new collection management software and develop controls to ensure the collection of student housing receivables.

Campus Response

We concur. The student housing department now issues monthly email reminders to residents that have past-due payments. The student accounts receivable and collections (SARC) team will continue to issue 30-, 60-, 90-day past-due notices (email at 30 and 60 days, mail paper notice at 90 days). An updated policy for allowance for doubtful and write off of uncollectable accounts which includes this collection process is being reviewed at this time which is expected to be implemented by January 2010.

CASH DISBURSEMENTS

Vendor data forms were not always maintained on file.

Our review of ten disbursements dated May 29, 2007, through March 9, 2009, disclosed that a vendor data form (STD. 204) was not on file for six vendors that had received payment.

SAM §8244.19 states that a completed STD. 204 must be obtained whenever a state agency engages in a transaction that leads to a payment to any individual or any entity that is not a governmental entity.

The controller stated that the lapses in controls were due to a lack of supervision.

Inadequate maintenance of vendor data forms increases the risk of inappropriate payments and may expose the campus to increased tax liability.

Recommendation 4

We recommend that the campus obtain vendor data forms (STD. 204) for all vendors receiving payments.

Campus Response

We concur. As of October 2, 2009, the following steps have been taken:

- a. Implemented an updated process to ensure that a vendor 204 form has been obtained by the campus prior to vendor creation in the PeopleSoft system.
- b. A central repository of all vendor 204 forms (currently hard copy) has been created.
- c. Financial services staff will be trained on proper vendor data collection and retention processes.
- d. Monthly, a random sample of vendor files and corresponding completed 204 forms will be reviewed from a PeopleSoft system vendor report, with any exceptions reported to the controller and the responsible staff member.

APPENDIX A: PERSONNEL CONTACTED

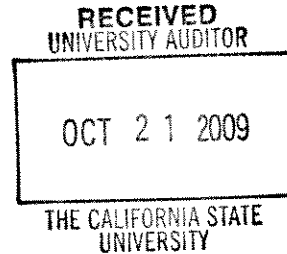
<u>Name</u>	<u>Title</u>
Hamid Shirvani	President
Julie Benevedes	Controller
Frank Borrelli	Property Services Manager
Debbie DaRosa	Buyer III, Lead
Jean Degrassi	Cashiering Coordinator, Stockton Center
Russell Giambelluca	Vice President, Business and Finance
Suzanne Green	Interim Vice President, Business and Finance (At time of review)
Delfin Guillory	Accounts Receivable Team Lead
Sara Hoek	Payroll Manager
Susan Madison	Health Services Assistant
Donevon Murrell	Support Services Supervisor, Public Safety
Jim Phillips	Director, Student Financial Services
Denise Powell	Pharmacist
Sherrie Rivera	Payroll Technician
Bernadette Sather	Business System Analyst
Bruce Wilbur	Medical Chief of Staff, Student Health Center
Alison Wolz	Finance Manager, Grants and Contracts



CALIFORNIA STATE UNIVERSITY, STANISLAUS

OFFICE OF BUSINESS & FINANCE

October 20, 2009



Mr. Larry Mandel, University Auditor
The California State University
Office of the Chancellor
401 Golden Shore, 4th floor
Long Beach, CA 90802-4210

Re: FISMA 09-04

Dear Mr. Mandel:

Attached for your review are CSU, Stanislaus recent FISMA audit responses to the recommendations provided by your office. All identified instances have been resolved. In addition, follow up on related procedures and processes are currently being conducted to strengthen internal controls and avoid further instances. These reviews will be complete before the fiscal year end.

Please feel free to contact me or Claire Tyson, AVP Financial Services, if you have further questions or comments.

Sincerely,

A handwritten signature in cursive script that reads "Russell Giambelluca".

Russell Giambelluca

Enclosures

Cc: Dr. Hamid Shirvani, President
Claire Tyson, AVP Financial Services

**FISMA
CALIFORNIA STATE UNIVERSITY,
STANISLAUS**

Audit Report 09-04

CASH RECEIPTS

THE STOCKTON CENTER

Recommendation 1

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- b. Ensure that activities at the Stockton Center are recorded at all times for security purposes.
- c. Utilize appropriate receipts for transferring parking permits to/from the Stockton Center and public safety.
- d. Segregate cashiering duties from persons who perform end-of-day reconciliations, or implement compensating mitigating controls.

Campus Response

We concur. CSU, Stanislaus acknowledges the importance of safeguarding asset. The following steps have been taken in response to this recommendation.

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controls may be implemented resulting from the evaluation currently underway for remote site cash handling procedures.

In addition, the Director of Student Financial Services is conducting an evaluation of all remote site cash handling procedures which will result in improved day to day processes, written directives, roles and responsibilities of employees handling cash, oversight, and on site unannounced audits.

PASSWORD CONTROLS

Recommendation 2

We recommend that the campus delete passwords to the PS Finance system in a timely manner upon employee separation.

Campus Response

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- a. A procedure is in place that directs a separating employee (State Administration Manual, Section 8580.4) through a clearance process including system access removal. A draft revision of this procedure is currently in review that will, among other things, better define the roles and responsibilities of those involved including the responsibility of the supervisor in the completion of the clearance process. It is expected that this procedure will be in place by January 2010.
- b. The Associate Vice President of Information Technology has appointed an Information Security Officer for the University and has developed relevant OIT procedures including Remote Computing, Control of User Access, Protected Data Definitions and Information Awareness Training.

ACCOUNTS RECEIVABLE

Recommendation 3

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Campus Response

We concur. The student housing department now issues monthly email reminders to residents that have past due payments. The Student Accounts Receivable & Collections (SARC) team will continue to issue 30, 60, 90 day past due notices (email at 30 and 60 days, mail paper notice at 90 days). An updated policy for allowance for doubtful and write off of uncollectable accounts which includes this collection process is being reviewed at this time which is expected to be implemented by January 2010.

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THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

November 9, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-04 on *FISMA*,
California State University, Stanislaus

LONG BEACH

LOS ANGELES

In response to your memorandum of November 9, 2009, I accept the response as submitted with the draft final report on *FISMA*, California State University, Stanislaus.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS