

AUDIT OF SHREDDING OPERATIONS AND CONTROLS
PRINTING SERVICES - SHREDDING OPERATIONS

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO
INTERNAL AUDIT REPORT

Michael Zachary, Internal Auditor

January 9, 2013
Audit Report No. 13-11

State of California

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MEMORANDUM

DATE: January 9, 2013

TO: Robert Gardner
Vice President for Administration and Finance/Chief Financial Officer

FROM: Michael Zachary
Internal Auditor

SUBJECT: **Internal Audit Report: Audit of Shredding Operations and Controls
CSUSB Printing Services - Shredding Operations**

Based on the 2012/13 CSUSB audit plan to complete an internal audit of the shredding operation, and per discussions with campus management, the subject audit of shredding operations and controls was initiated. Audit conclusions are based on inquiries, and testing of the existing level of compliance with State and Federal regulations governing privacy for confidential documents, as well as compliance with industry standards and best practices.

Audit results showed that, subject to the recommendations outlined in the body of this report, the shredding operation is well-managed, operationally sound, and both recordkeeping and accounting procedures are adequate. Most importantly, the chain of custody procedures for documents/media ensures that the privacy of confidential documents is maintained. Notwithstanding that opinion, we identified certain industry best practices that, if implemented and complied with, would further strengthen internal controls for shredding operations. Notably however, Printing Services management has already taken action to implement the audit recommendations and submit evidential documentation for follow-up review and audit closure.

Please refer to the adjointed report for a full view of audit observations and recommendations.

cc: Dr. Tomas Morales
Kathy Hansen
Shannon Kelly
Laura Sicklesteel
Del Anderson

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EXECUTIVE SUMMARY

As a result of the 2012-2013 CSUSB audit plan to perform an audit of shredding operations, the Internal Auditor (Auditor) initiated fieldwork and completed the audit in November 2012.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included such audit tests that were considered necessary in evaluating the administrative and accounting controls surrounding the areas audited.

The audit included those steps deemed appropriate, as stated in the Scope and Methodology section presented later in this report. A review of compliance with Health Insurance Portability and Accountability Act (HIPAA), Fair and Accurate Credit Transactions Act (FACTA) and State Administrative Manual (SAM) provisions was performed, along with a review of compliance with shredding best practices as provided by the National Association for Information Destruction (NAID).

The audit procedures were based on the standards outlined in the NAID Certification Program, along with the regulatory mandates for security established by HIPAA, FACTA, and SAM. The CSUSB shredding operation bases its compliance on HIPAA, FACTA and SAM regulations; however, it is unable to apply for NAID certification due to collective bargaining agreement limitations. The Auditor conducted certain interviews that were considered necessary to obtain background data, accounting information, other factual data, and opinions related to this project. The audit included a detailed internal control questionnaire and follow-on testing that was considered necessary to arrive at the audit conclusions. Audit findings are based on the state of internal controls in place as of November 2012.

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 may not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions that may require attention. Areas of review that are not mentioned in this report are considered to be satisfactory. Details of these issues, along with audit recommendations follow in the body of this report.

While there were no significant operational or accounting deficiencies noted during this audit, we nonetheless developed a set of recommendations to further strengthen internal controls for the shredding operation overall.

PROCEDURES FOR DRIVERS AND DESTRUCTION PROCESSING EMPLOYEES

At the time of audit, we noted that there were no written procedures for vehicle drivers, and destruction processing employees.

CONFIDENTIAL MEDIA BREACH PROCEDURES

Existing shredding guidelines and procedures did not include procedures and actions to be taken in the event of a breach of confidential information.

VISITOR LOGS

The shredding operation did not maintain a visitor log for non-plant employee visits.

PROCEDURES FOR MEDIA DESTRUCTION WITHIN SPECIFIED TIME LIMITS

Existing written procedures for shredding did not specify that destruction of confidential documents/media would occur within a specified time limit.

ACCOUNTING AND RECORDKEEPING

Accounting and recordkeeping procedures and storage space requirements needed further attention by management.

INTRODUCTION

AUDIT OPINION

In the Auditor's opinion, subject to the recommendations outlined in the body of this report, the shredding operation is well-managed, operationally sound, and both recordkeeping and accounting procedures are adequate. Consistent efforts have been applied to develop and improve the chain of custody procedures for documents/media to ensure that the privacy of confidential documents is maintained. Additionally, management is highly receptive to the audit recommendations.

BACKGROUND AND OBJECTIVES

Based on discussions with Accounting and Purchasing management, and inquiries from Printing Services, the audit of shredding operations was placed into the 2012-2013 Audit Plan as it was developed in early 2012. The objective of the audit has been to evaluate the adequacy of internal controls for the shredding operation that ensure privacy and destruction of confidential documents and other documents that range from private to sensitive.

In recent years, Purchasing Department management has seen the value of having a shredding operation in-house (or in-plant as it is called in the shredding industry). With outside vendor shredding costs increasing regularly, the investment into an in-plant shredder became more and more attractive. Additionally, the idea of having a clean-operating plant on campus became a better, green alternative when compared to having vendor shredding trucks visit the campus.

After performing cost comparisons and analysis, and doing research into Health Insurance Portability and Accountability Act (HIPAA), Fair and Accurate Credit Transactions Act (FACTA) and State Administrative Manual (SAM) compliance, management saw that an in-plant shredder was a viable solution for the many campus shredding jobs. Management then purchased a large cross-cut shredder that is advertised to be both HIPAA and FACTA compliant. The machine was installed in 2012, operational procedures were developed, and pricing for shredding services was put in place. Shredding bins and consoles were obtained, and a specialist was hired to operate the shredding machine, deliver bins and consoles to campus customers, and pick them up for shredding when they become full. Based on management's judgment, electronic media such as computer hard drives have not been accepted for shredding but media such as CDs, DVDs and magnetic tape can be shredded.

After setting up operational procedures and even arranging to sell shredded paper to an outside pulping vendor, recordkeeping and accounting methodologies were developed and refined. On July 1, 2012 shredding procedures were placed into operation.

SCOPE AND METHODOLOGY

The scope of audit encompassed a review of selected business procedures. As part of the audit, we first became familiar with HIPAA, FACTA, and SAM compliance requirements, and then reviewed industry standard best practices for shredding as developed by the National Association for Information Destruction (NAID) which are included in their certification process.

We reviewed the shredding machine location environment (warehouse) and the location where accounting and recordkeeping are done (Printing Services offices area) and security for the warehouse and offices areas. The equipment used was viewed and existence verified, including the shredding machine, bins and consoles, locked dumpsters, the heavy lifting bin-dumper, a 3 ½ foot in-feed conveyor, and observed the vehicles used to transport bins and consoles. The evaluation of transportation procedures included field visits to bin and console pickup locations, and observations, along with the staff member assigned to the duty. We evaluated the security of the transportation process from customer locations to the shredding machine location, and the carrying, handling, unloading, receiving, and opening of bins and consoles, as well as the documentation, logs and certificates used to memorialize the shredding of each departmental transaction.

Part of the audit included discussion regarding keys used for the bins and consoles, as well as security and storage for the keys. The accounting and recordkeeping process for shredding was reviewed, including documentation, spreadsheets, the chargeback process, and the general ledger reconciliation process to verify that departmental chargebacks were posted correctly. In conjunction with recordkeeping, we evaluated the data storage and back-up procedures used to provide assurance that shredding records maintained in electronic format are adequately maintained and backed-up to avoid loss of data.

The witnessing of receipt and removal of documents from bins and consoles by a State employee was also confirmed, as part of SAM 1693 requirements. We obtained assurances that training and cross-training was provided to the extent necessary to provide for continuous coverage of the shredding operation. Lastly, we performed a limited review of comparisons between the shredding operation costs, revenues and benefits versus using outside vendors to do the shredding. The results of this scope of audit are presented in Audit Observations, Recommendations and Management Responses below.

AUDIT OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Subject to the recommendations stated below, no significant deficiencies were identified during this audit. We believe that the shredding operation is well managed, and operationally sound. Notwithstanding that opinion, the Auditor looked for policy areas that could be strengthened through following best practice recommendations, as stated below.

PROCEDURES FOR DRIVERS AND DESTRUCTION PROCESSING EMPLOYEES

At the time of audit, we noted that there were no written procedures for vehicle drivers, and destruction processing employees.

NAID Operational Security Guidelines, §2.1a states that there should be written procedures (departmental guidelines) for vehicle drivers and destruction processing employees to follow.

Recommendation 1

We recommend that Printing Services (shredding operations) management identify key procedures for drivers and destruction processing employees, and then document and implement those procedures.

Management Response

We concur with the audit recommendation. Our action plan will be to develop and implement written procedures for vehicle drivers and destruction processing employees.

Audit Follow-Up

Shortly after completion of the audit field work, and receiving the draft report, Printing Services management implemented the audit recommendations and submitted documentation to Internal Audit showing evidence of implementation. A final review of this documentation, discussions with management, and audit closure will be complete by March 15, 2013.

CONFIDENTIAL MEDIA BREACH PROCEDURES

Existing shredding guidelines and procedures did not include procedures and actions to be taken in the event of a breach of confidential information.

NAID Operational Security Guidelines, §2.1c and §2.1d state that, in the event that security of a customer's confidential media is breached, the customer and (CSUSB) management will be notified as soon as reasonably possible.

Recommendation 2

We recommend that Printing Services management document and implement document/media breach procedures.

Management Response

We concur with the audit recommendation. Our action plan will be to document and implement procedures for the potential breach of confidential information.

Audit Follow-Up

Shortly after completion of the audit field work, and receiving the draft report, Printing Services management implemented the audit recommendations and submitted documentation to Internal Audit showing evidence of implementation. A final review of this documentation, discussions with management, and audit closure will be complete by March 15, 2013.

VISITOR LOGS

The shredding operation did not maintain a visitor log for non-plant employee visits.

NAID Operational Security Guidelines, section 2.18 states that the shredding plant areas should maintain a visitor log for any non-plant employee visits. Additionally, the visitor log must be maintained according to CSU record retention policy requirements for Printing Services and its subunits.

Recommendation 3

We recommend that Printing Services develop a non-plant visitor log and maintain it according to CSU record retention policy requirements.

Management Response:

We concur with the audit recommendation. Our action plan will be to develop and maintain a non-plant visitor log and maintain it in accordance with CSU record retention guidelines.

Audit Follow-Up

Shortly after completion of the audit field work, and receiving the draft report, Printing Services management implemented the audit recommendations and submitted documentation to Internal Audit showing evidence of implementation. A final review of this documentation, discussions with management, and audit closure will be complete by March 15, 2013.

PROCEDURES FOR MEDIA DESTRUCTION WITHIN SPECIFIED TIME LIMITS

We noted that existing written procedures for shredding did not specify that destruction of confidential documents/media would occur within a specified time limit, although based on our observations and visits to the shredding area it appeared that actual shredding of confidential documents/media was promptly done.

NAID Destruction Process Guidelines, §3.5 and §3.6 state that the destruction of confidential media must take place within a specified number of business days of arriving at the destruction facility

Recommendation 4

We recommend that Printing Services management document and implement written procedures stating the number of days that documents/media can be on hand in the shredding warehouse before it is shredded and placed in dumpsters for ink removal and pulping.

Management Response

We concur with the audit recommendation. Our action plan will be to document and implement written procedures describing the number of days that documents/media can be on hand in the warehouse before it is shredded and placed into dumpsters for ink removal and pulping.

Audit Follow-Up

Shortly after completion of the audit field work, and receiving the draft report, Printing Services management implemented the audit recommendations and submitted documentation to Internal Audit showing evidence of implementation. A final review of this documentation, discussions with management, and audit closure will be complete by March 15, 2013.

ACCOUNTING AND RECORDKEEPING

Accounting and recordkeeping procedures and storage space requirements needed further attention by management. We noted that:

- a. There were no written procedures describing the accounting and recordkeeping for shredding operation revenue. This revenue would consist mainly of chargebacks for shredding, and revenue from sales of shredded media to vendors.
- b. Storage space was very limited (a desk drawer and a small two drawer filing cabinet). At the time of audit, only about four months of accounting and shredding chain-of-custody records had been processed, but as time goes by, the number of records kept will likely become substantial to comply with CSU record retention policy requirements.

State Administrative Manual (SAM) §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are nonexistent. It further states that elements of a satisfactory system of internal accounting and administrative controls shall include a system of authorization and *recordkeeping procedures* adequate to provide *effective accounting control* over assets, liabilities, revenues, and expenditures.

Recommendation 5

We recommend that Printing Services management:

- a. Document and implement guidelines or procedures describing accounting and recordkeeping for the shredding operation.
- b. Evaluate future space requirements for the shredding operation accounting and chain-of-custody compliance records to assure compliance with CSU record retention policy requirements. Obtain additional storage cabinets if necessary.

Management Response

We concur with the audit recommendation. Our action plan will be to:

- a. Document and implement procedures describing accounting and recordkeeping for the shredding operation.
- b. Evaluate future space requirements for accounting records and chain-of-custody records and obtain additional storage areas if necessary.

Audit Follow-Up

Shortly after completion of the audit field work, and receiving the draft report, Printing Services management implemented the audit recommendations and submitted documentation to Internal Audit showing evidence of implementation. A final review of this documentation, discussions with management, and audit closure will be complete by March 15, 2013.

AUDIT FOLLOW-UP AND CLOSURE

At the time of this final audit report, Printing Services management has responded to and implemented the audit recommendations. A final review of this documentation, discussions with management, and audit closure will be complete by March 15, 2013.

If you have any questions or concerns, please contact me at 909-537-3430.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Robert Gardner	Vice President for Administration and Finance/CFO
Emily Carnehl	Administrative Support Assistant, Printing Services
Charlene Earl	Administrative Support Coordinator, Property Management
Michael Guillory	Laborer/Shredder/Driver, Printing Services
Kathy Hansen	Director, Procurement and Support Services
Shannon Kelley	Accounts Payable Manager, Accounts Payable
Laura Sicklesteel	Manager, Printing Services