

**FISMA**

**SAN JOSE STATE UNIVERSITY**

**Report Number 98-09**

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## ABBREVIATIONS

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
IT	Information Technology
SAM	State Administrative Manual
SCO	State Controller's Office
SJSU	San Jose State University
SUAM	State University Administrative Manual

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## INTRODUCTION

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### PURPOSE

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

- ▶ cash receipts are processed in accordance with laws, regulations and management policies;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management policies;
- ▶ revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies;
- ▶ cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists;
- ▶ payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled, and access to personnel/payroll records and processing areas are restricted;
- ▶ purchase and disposition of fixed assets are controlled and recordings of assets are made promptly in the subsidiary records;
- ▶ physical computer controls are in place and functioning;
- ▶ investments are adequately controlled and securities are safeguarded; and
- ▶ trust funds are established in accordance with SUAM guidelines.

## SCOPE AND METHODOLOGY

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 1997/98 fiscal year 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 July to September 1998. Our primary focus was on internal controls, and 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 over the establishment of billing for and payment of receivables;
- ▶ approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;
- ▶ limitations on the size and types of revolving fund disbursements;
- ▶ use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;
- ▶ authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies;
- ▶ posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;
- ▶ access restrictions to automated accounting systems and proper documentation of the systems;
- ▶ procedures for initiating, evaluating, and accounting for investments; and
- ▶ establishing of trust funds, separate accounting, adequate agreements, and annual budget.

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

## BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. The Office of the University Auditor of the CSU is responsible for conducting such audits within the CSU. This report represents our biennial review.

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## OPINION

We visited San Jose State University from August 17, 1998, through October 9, 1998, and audited the internal control structure in effect at that time.

In accordance with the Government Code Section 13402, et seq., state agency heads are responsible for establishing and maintaining systems of internal accounting control. The broad objectives of control systems for state agencies are to provide management with reasonable, but not absolute, assurance that:

- ▶ assets are safeguarded from unauthorized use or disposition; and
- ▶ transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the State Administrative Manual.

Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk, inasmuch as procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate. (See Appendix B, *Statement of Internal Controls*.)

Our audit disclosed conditions which, in our opinion, if not corrected could result in significant errors and irregularities. Specifically, the campus does not maintain adequate internal controls over the following areas: account receivables, revolving funds, fixed assets, investments, and trust funds. Other areas needing improvement are found in the Executive Summary.

## **EXECUTIVE SUMMARY**

The purpose of this section is to provide management with an overview of conditions requiring 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 [7]**

#### **CASHIERING [7]**

Cash control weaknesses were found at four cashiering locations visited during our review. This is a repeat finding from our previous FISMA audit. Adequate control over safekeeping facilities reduces exposure to loss as a result of inappropriate acts.

#### **FEE RECONCILIATIONS [8]**

The campus was not performing a reconciliation of applications to application fees after each academic term. The timely reconciliation of fee collections reduces the risk that errors or misappropriation of fees will go undetected.

### **ACCOUNTS RECEIVABLE [8]**

#### **DELINQUENT ACCOUNTS [8]**

Adequate follow-up was not performed and available remedies were not always utilized in collecting delinquent receivable accounts. Ensuring timely follow-up and performing collection remedies limits the potential for loss of revenue from uncollectible accounts and increases working capital.

#### **RELIEF FROM ACCOUNTABILITY [9]**

Procedures involving relief from accountability or local write-offs of uncollectible accounts were inadequate. Dismissing accounts receivable with a low probability of collection will more accurately reflect current and future assets.

#### **LIBRARY RECEIVABLES [10]**

Library procedures for administering accounts receivable were inadequate. Maintaining adequate controls over accounts receivable collections increases working capital and decreases lost revenues.

## **REVOLVING FUND [11]**

### **SALARY ADVANCES [11]**

Revolving fund salary advances were not cleared in a timely manner. This is a repeat finding from our previous FISMA audit. The timely clearance of outstanding salary advances allows resources to be available for other uses and limits the potential for loss of revenue from uncollectible accounts.

### **CHANGE FUNDS [12]**

Independent cash counts of petty cash/change funds did not always occur with the required frequency. This is a repeat finding from our previous FISMA audit. The periodic counting of change funds assures that university assets are safeguarded and internal control is not compromised.

### **APPROVAL OF LARGE CHANGE FUNDS [13]**

The campus has not obtained approval from the Department of Finance for two large change/cash funds. Appropriate approval of change funds helps ensure that State resources are properly used.

### **OVERDRAWN BALANCES [13]**

For a seven-month period during fiscal year 1997, the campus' revolving fund month-end balances were overdrawn in the amount of three to seven million dollars. Augmenting the revolving fund to meet current spending patterns should provide management with a clearer understanding of account balances.

## **CASH DISBURSEMENTS [14]**

### **VENDOR DATA RECORDS [14]**

The campus did not maintain a Vendor Data Record (Form 204) on file for all non-government vendors. Obtaining and maintaining vendor data information prior to submitting payments reduces campus exposure to penalties and fines by the Internal Revenue Service.

## **FIXED ASSETS [15]**

### **EQUIPMENT UNDER \$5,000 [15]**

The campus was not properly controlling equipment with values under \$5,000. Tagging and properly accounting for acquisitions reduce the risk that property will be lost or stolen.

## **FISCAL INFORMATION TECHNOLOGY [16]**

### **INFORMATION SECURITY [16]**

A computer information security policy has not been issued and there was limited review of data security configuration and reports. The issuance of a data security policy and periodic reviews of security reports reduce both the risk of inappropriate access to financial and student information and the potential for employee confusion over data ownership.

### **USER ID AND PASSWORD [18]**

Administration of user identifications and passwords was inadequate. Proper administration and password length reduce the risk of inappropriate access to financial and student information.

### **SYSTEM MONITORING [18]**

Procedures to provide necessary monitoring over the campus computer environment were inadequate. Computer environment monitoring tools provide the campus with diagnostic tools to increase the efficiencies and effectiveness of the operating system.

### **OFF SITE STORAGE LOCATION [19]**

The computer center's off site storage location for backup data was not at an appropriate distance from the campus. In the event of a disaster, a storage facility outside the effected area will reduce the risk that backup computer data will be lost to a concurrent disaster.

## **INVESTMENTS [20]**

Campus investments were not always properly supported with proper documentation and/or authorized by CSU Investment Policy. Properly supported and authorized investments reduce the risk of fund misappropriation, allow management the ability to monitor investment performance, and ensure that objectives of the CSU Investment Policies are achieved.

## **TRUST FUND ADMINISTRATION [21]**

Administration over trust fund operations was inadequate. This is a repeat finding from our previous FISMA audit. Adequate administration over trust funds reduces the risk that trust funds are not adequately documented, trust expenditures are unauthorized, and errors or misappropriations remain undetected.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

#### **CASHIERING**

Cash control weaknesses were found at four cashiering locations visited during our review. This is a repeat finding from our previous FISMA audit.

The Central Cashiering unit and the satellite cash collection centers at University Housing, Traffic & Parking and the Library did not maintain written records of employees with access to safekeeping facilities or when the combinations were last changed.

SAM § 8024 requires records to be maintained indicating the date the combination was last changed and names of persons having knowledge of the combination.

The manager of cashiering services indicated that he had not been made aware of these requirements upon his assignment and, as a result, communications of the requirements were not forwarded to satellite cashiering locations.

Internal controls in the safeguarding of assets are compromised when the safe combination is known by employees who leave the employ of the campus and/or by employees who no longer have a need to know the safe combination in order to perform their duties.

#### **Recommendation 1**

We recommend that the campus improve procedures at all locations where cash is collected to ensure that a current written record is maintained of those individuals who have access to the safekeeping facilities and the dates the combinations were last changed.

#### **Campus Response**

We concur. The Cashiering Office has taken action to have the safe combination changed in the Central Cashiering unit and has a written record of employees who have access to the safe on file. All satellite cash collection centers have been notified in writing of the policy and have been requested to submit documentation to the Cashiering Office. A follow up will be done to ensure all satellite centers are in compliance by March 1, 1999, with a semi-annual review to ensure continued compliance.

## **FEE RECONCILIATIONS**

The campus was not performing a reconciliation of applications to application fees after each academic term.

The campus was performing application fee reconciliations annually.

SUAM §3825.01 requires that a reconciliation of applications to application fees be prepared for each academic term and maintained on file by each campus.

The accounts receivable supervisor indicated that he was unaware of the requirement.

When fees are not reconciled timely, errors or misappropriations of funds may remain undetected.

### **Recommendation 2**

We recommend that the campus reconcile admission applications to fees received each academic term.

### **Campus Response**

We concur. We currently have procedures in place for the reconciliation of application fees. The Accounts Receivable Office will conduct an application fee reconciliation at the end of each academic term. The Fall 1998 reconciliation will be completed by 2/26/98 and the Spring 1999 reconciliation will be completed by 7/30/99.

## **ACCOUNTS RECEIVABLE**

### **DELINQUENT ACCOUNTS**

Adequate follow-up was not performed and available remedies were not always utilized in collecting delinquent receivable accounts.

Our review of a sample (forty-one) of student, payroll and external vendor delinquent receivable accounts, indicated the following:

- Adequate follow-up was not performed on twenty-four accounts. We found no evidence of contact, such as letters, phone calls, or other collection efforts made during the past nine months.
- Available remedies for delinquent accounts were not always used. Tax offsets were not performed on ten of the twenty-six delinquent student and payroll accounts within our sample. Collection agencies were not used for five of the sixteen delinquent student accounts. Additionally, collection agencies are not employed as a normal remedy for overdue payroll receivable accounts.

SAM §8776.6 and SUAM §3822 established procedures for the collection of outstanding accounts receivable, including preparation and issuance of follow-up letters and/or calls and use of tax offset and collection agencies.

The director of student financial services indicated that former personnel had not always performed adequate follow-up on receivable accounts. The director of payroll services stated that appropriate resources were not provided to the payroll receivable function.

Not pursuing all options in the collection of delinquent receivables increases the potential for loss of revenues and results in an inaccurate picture of accounts receivable.

### **Recommendation 3**

We recommend that the campus take appropriate action to ensure that collection efforts include timely follow-up and use of all available options.

### **Campus Response**

We concur. Procedures are in place to ensure that delinquent accounts are followed up timely and that appropriate actions are taken to resolve outstanding balances. More frequent desk audits will be conducted to ensure that we are in compliance. We are currently in compliance.

## **RELIEF OF ACCOUNTABILITY**

Procedures involving relief from accountability or local write-offs of uncollectible accounts were inadequate.

No use had been made of the relief of accountability or local write-off methods for ten of the forty-one accounts reviewed.

SAM §8776.6 indicates that if all reasonable collection efforts do not result in payment, the campus may request relief from accountability of uncollectible amounts from the State Board of Control.

Executive Order No 616 delegates to the campuses the authority to write-off debts of \$1,000 or less which are either uncollectible or the amount(s) involved do not justify the cost of collection.

The senior director of business operations stated that the responsible department was remiss in not writing off debts greater than \$1,000 for the fiscal year 1997/98.

By accounting for delinquent accounts that have a low probability of collection, the campus is misstating the accounting records and potential cash flow.

#### **Recommendation 4**

We recommend that the campus improve collection procedures to include the use of relief of accountability and local write-off methods for outstanding accounts receivable.

#### **Campus Response**

We concur. The Student Financial Services department has submitted all accounts that meet the criteria for relief of accountability to the State for authorization of write-off of a total of 15 accounts. We have been consistent in our practice to write-off small balances. We are currently in compliance.

### **LIBRARY RECEIVABLES**

Library procedures for administering accounts receivable were inadequate.

For example:

- the library was not maintaining an aging schedule, the purpose of which is to determine the total amount owed the campus and the length of time individual accounts are outstanding;
- the library system database indicated that, as of August 1998, receivables totaled \$216,257. An undetermined number of these accounts dated back to the 1980's; and,
- procedures had not been established to transfer library uncollectible receivables to the campus accounting office for relief of accountability or local write-off.

SAM § 8776.6 establishes procedures for the collection of outstanding accounts receivable. If all reasonable collection procedures do not result in payment, the campus may request relief from accountability of uncollectible amounts from the State Board of Control.

Executive Order 616 delegated authority to the campuses for local adjustments of up to \$1,000.

Both the circulation department head and senior director of business operations indicated that, because the library had always been responsible for their own collections, the coordination of library receivables with the campus accounting office had not occurred.

Inadequate controls over accounts receivable collections decrease working capital and increase the risk of loss of revenue.

### **Recommendation 5**

We recommend that the campus strengthen its library accounts receivable procedures to ensure that the library establishes an aging schedule of library receivables and transfers uncollectible accounts to the accounting office for relief of accountability or local write-off.

### **Campus Response**

We concur. The campus does not currently book library receivables in the financial accounting ledgers; therefore there is no need for a formal relief of accountability. We will make a GAAP entry at the end of each fiscal year (approximately July 25) to accurately reflect the University's receivables. We will also work with the Library to establish a method to more accurately age accounts and to determine when accounts should be removed (local write-off) from their aging reports to ensure that the year end entry is accurate. The Director of Student Financial Services will authorize and approve any write-offs. This process will be completed by the end of April 1999.

## **REVOLVING FUND**

### **SALARY ADVANCES**

Revolving fund salary advances were not cleared in a timely manner. This is a repeat finding from our previous FISMA audit.

Campus accounting records indicated that as of August 31, 1998, there were fourteen accounts totaling \$6,350 over sixty days old, one of which dated back three years.

SUAM §3813 requires prompt clearance of salary advances through employee reimbursements. Generally, the time period for recovery of salary advances should not exceed sixty days. In addition, SAM §8595 and SAM §8776.6 require salary advances to be cleared through offset against subsequent payroll warrants or use of relief of accountability.

The director of payroll and accounting manager both indicated that a lack of coordination between the two departments led to delays in properly booking and collecting the advances.

When outstanding salary advances are not cleared in a timely manner, resources are not available for other campus usage and there is an increased potential for loss of revenue from uncollectible accounts.

### **Recommendation 6**

We recommend that the campus strengthen procedures to ensure that salary advances are cleared in a timely manner.

**Campus Response**

We concur. Procedures have been established to ensure that salary advances are documented in a timely manner. All payroll receivables over sixty days have been cleared or are in the process of being collected. We are currently in compliance with the recommendation.

**CHANGE FUNDS**

Independent cash counts of petty cash/change funds did not always occur with the required frequency. This is a repeat finding from our previous FISMA audit.

We found that eight of the thirty-five petty cash/change funds were either not independently counted or verified within the required frequency.

SAM § 8111.2 requires an employee, other than the custodian of the petty cash or change fund, to count each fund in accordance with the following schedule:

<u>Size of Fund</u>	<u>Frequency of Count</u>
\$200.00 or less	Annually
\$200.01 to \$500.00	Quarterly
\$500.01 to \$2,500.00	Monthly
Over \$2,500.00	At least monthly

The director of accounting indicated that cash custodians were not always available during required cash count timeframes and follow-up of required counts was not always performed.

Internal control of change funds is compromised when periodic independent cash counts are not performed timely.

**Recommendation 7**

We recommend that the campus ensure that independent cash counts of petty cash/change funds occur within the required frequencies.

**Campus Response**

We concur. We do however want to comment that attempts to count each and every change fund within the prescribed period were made. Since we perform surprise counts, occasionally the owner of a change fund is not available to allow the count to occur. We are in compliance since the conclusion of the audit fieldwork.

**APPROVAL OF LARGE CHANGE FUNDS**

The campus has not obtained approval from the Department of Finance for two large change/cash funds.

The campus maintains a Bank of America – NSF Clearing Accounts with a balance of \$100,000 and a cashier’s petty cash fund with a balance of \$7,000, neither of which had been approved by the Department of Finance.

SAM §8111.1 requires each change fund in excess of \$750 be established only after approval from the Department of Finance, Fiscal Systems and Consulting Unit.

The senior director of business operations indicated that the campus’ banking relationship required the establishment of the \$100,000 account. Also, previous attempts at gaining approval for both accounts from the Fiscal Systems and Consulting Unit had not been successful. Communications and approval from the Department of Finance, Fiscal Systems and Consulting Unit, assures that State resources are properly used.

**Recommendation 8**

We recommend that the campus obtain approval from the Department of Finance for change/cash funds in excess of \$750.

**Campus Response**

We concur. The Department of Finance has failed to respond to our previous efforts to obtain approval. We will resume our efforts to obtain approval for these change funds from the Department of Finance, Fiscal Systems and Consulting Unit. We will complete this task by February 28, 1999.

**OVERDRAWN BALANCES**

For a seven-month period during fiscal year 1997-98, the campus’ revolving fund month-end balances were overdrawn between three to seven million dollars.

Government code § 12440.1 states that a university may draw funds appropriated to the university, for use as a revolving fund, to make payments directly to vendors. In any fiscal year, the university shall

obtain approval of the director of finance to draw amounts in excess of ten percent of the total appropriations to the university for that fiscal year for use as a revolving fund.

The director of accounting indicated the periodic revolving fund overdraw was primarily due to the Direct Vendor Pay program and large capital outlays performed by the campus.

The purpose of the revolving fund, to provide a mechanism for immediate payment and Direct Vendor Pay, could be jeopardized due to repeated overdrawn balances. In addition, it prevents management from having a clear understanding of account balances.

### **Recommendation 9**

We recommend that the campus take the action required, including gaining approval from the Department of Finance, to augment the revolving fund to meet current spending patterns.

### **Campus Response**

We concur and will work through the Department of Finance to attempt to augment the campus Revolving Fund to meet current spending patterns. However, this will not totally solve the problem. The revolving fund comes from the general fund allocation. During May and June we would need to reduce the revolving fund in order to meet general fund payroll. We would be willing to work with the Chancellor's Office to devise another methodology to ensure the entire CSU can avoid being overdrawn during those periods. We expect with the cooperation of the Chancellor's Office Accounting Office to be in compliance by June 1999.

## **CASH DISBURSEMENTS**

### **VENDOR DATA RECORDS**

The campus did not maintain a Vendor Data Record (Form 204) on file for all non-governmental vendors.

SAM § 8422.19 requires a Vendor Data Record (Form 204) be kept on file for payments of at least \$600 to all non-governmental entities and payments to individuals, medical corporations and partnerships. If the vendor does not complete form 204 and the required data is not otherwise provided, the payment is to be reduced by 20 percent for federal withholding.

Both the senior business director and director of procurement services indicated that vendor information is maintained on the procurement system. However, the vendor's certification of such information or Vendor Data Record was not maintained.

Under the Internal Revenue Service Code, a state agency that fails to obtain the Taxpayer Identification Number (TIN) or fails to file timely information returns is subject to a penalty of up to \$50 per annual information return to a maximum of \$250,000. In addition, the state agency can be assessed a 20 percent federal backup income tax withholding on amounts that were incorrectly reported or were not withheld. The IRS or the State Franchise Tax Board may assess additional penalties, fines and interest.

### **Recommendation 10**

We recommend that the campus obtain and retain Vendor Data Records (Form 204) for all appropriate non-governmental entities.

### **Campus Response**

We concur. The Procurement Department is in the process of migrating to a new system. In this process, we will establish a new method to track and ensure that vendor data records are on file for all vendors. We plan to be current by April 1, 1999, with vendor data records.

## **FIXED ASSETS**

### **EQUIPMENT UNDER \$5,000**

The campus was not properly controlling equipment with a value under \$5,000.

The campus does not tag equipment with a value under \$5,000 and department inventories are not always maintained. Our review of eight departments indicated that three had no inventory of equipment under \$5,000.

SAM § 8650 and §8651 require state agencies to record information when property is acquired and maintain records of all capitalized and non-capitalized property. When practicable, all state property will be tagged after acquisition. Executive Order 649 indicates that the campus may continue to follow the State Administrative Manual guidelines (e.g., §8651) or institute a policy more appropriate to the university environment.

The director of accounting indicated that equipment under \$5,000 is the responsibility of each department.

When property is not tagged or listed on property inventories, the risk that property will be lost or stolen is increased.

### **Recommendation 11**

We recommend that the campus centralized property office ensure there is an adequate level of control over fixed assets and verify that departments are tagging and performing inventories as required.

#### **Campus Response**

We concur. We are opting to follow an alternate procedure as described in EO 649. We will have approved alternate policy by March 31, 1999. As part of this policy we will begin taking periodic random samples of equipment under \$5,000 and perform an inventory to test for departmental compliance with the policy. This procedure will begin April 1, 1999.

## **FISCAL INFORMATION TECHNOLOGY**

### **INFORMATION SECURITY**

A computer information security policy has not been issued and there was limited review of data security configuration and reports.

Issuing a security policy communicates management's directives on access to computer information, such as financial and student data, and impacts the security software configuration in computers. The policy also helps communicate employee responsibilities to prevent unauthorized access, change, or destruction of computer information.

The senior director of the computer center indicated that a security policy is now in draft form. He also stated that periodic training on data security software, functions and responsibilities had not been a priority in the past.

Failure to issue a policy on data security can result in inappropriate access to financial and student information and employee confusion over data ownership. Additionally, by not periodically reviewing security reports, the campus is unable to detect whether inappropriate personnel have access to sensitive data or unauthorized changes have been made to security software configurations.

### **Recommendation 12**

The campus should issue and implement a formal data security policy and establish procedures for periodic review of data security reports.

**Campus Response**

We concur. The CIO sub-committee on security will issue a formal data security policy. The CIO will also establish procedures for periodic review of data security reports. These reviews will commence June 1999, with reviews occurring every six months.

## **USER ID AND PASSWORD**

Administration over user IDs and passwords was inadequate.

For example:

- revoked user IDs for logging onto CSU systems had not been removed; and,
- password length of four characters was inadequate when compared to today's acceptable standard of six characters.

The senior director of the computer center indicated that data security had not been a priority in the past and data security configurations were not periodically reviewed.

Security reports become less effective when revoked user identifications are not removed from the system. Passwords of less than six characters can be broken through new technology used to circumvent data security systems.

### **Recommendation 13**

We recommend that the campus:

- a. change the data security configuration on password requirements from four to six characters; and,
- b. ensure that user IDs which have been revoked are periodically removed.

### **Campus Response**

We concur. We have already changed the character length for passwords from four to six on the MVS mainframe and will shortly make the changes (by the end of February 1999) on the Unix system. We will further implement a process, by February 28, 1999, to ensure ID's that have been revoked are removed.

## **SYSTEM MONITORING**

Procedures to provide necessary monitoring of the campus computer environment were inadequate.

Monitoring is limited to a semi-automated information system that lacks sufficient detailed data and automated functions to ensure that the computer system is efficiently and effectively managed.

Mainframe computer environments typically have an automated solution for monitoring and protecting the computer operating system.

The senior director of the computer center indicated that historically, an automated monitoring system was not needed due to a less complex computer center. Over the past few years, the system has increased to a point that warranted an automated monitoring system.

Without an automated monitoring system, the campus is unable to perform an adequate comprehensive array of analyses, historical trending information, and diagnostic tools to increase the efficiencies and effectiveness of the operating system.

#### **Recommendation 14**

We recommend that the campus determine the feasibility of implementing an automated monitoring system.

#### **Campus Response**

We concur. The Division of the CIO has identified funding for monitoring tools. The operation analysts are currently assessing tools and will purchase and implement by summer 1999.

### **OFFSITE STORAGE LOCATION**

The computer center's offsite storage location for backup data was not at an appropriate distance from the campus.

Backup for the campus computer center is sent to a local site in downtown San Jose.

To protect against loss due to a concurrent disaster, backup media should be sent to a location outside the local vicinity of the computer center.

The senior director of the computer center indicated that, due to cost factors, a local backup site was selected.

In the event of a disaster, transactions entered into and processed by the mainframe computer could be permanently lost or require significant cost in time and effort to recreate if a concurrent disaster effects the campus' offsite storage location.

#### **Recommendation 15**

We recommend that the campus:

- a. research the cost of sending backup computer data to a storage location outside the local area; and
- b. move the backup data storage outside the local area if economically feasible.

### **Campus Response**

We concur. We are currently looking at potential offsite storage in Fresno. If this is an economically feasible alternative we will use this site. We will establish an alternate off-site storage facility by June 1999.

## **INVESTMENTS**

Campus investments were not always properly supported with proper documentation and/or authorized by the CSU Investment Policy.

Our review of the campus' June 30, 1998 and September 30, 1998 investment records noted the following:

- Ten investments totaling \$953,481.74 were held outside the centralized investment products created to facilitate the centralization of investment management.
- Supporting documentation (e.g. statements or agreement) could not be located for eight investments totaling approximately \$823,181.
- One investment with a September 30, 1998 carrying or book value of \$30,684.33 had been liquidated or closed since December 1994. The investment's value has been zero since December 1994.
- Required accounting entries for two mortgage-backed securities were not always prepared. This resulted in the overstatement of interest income of approximately \$229,000 over the past several years.
- Eight campus department loans with a September 30, 1998 balance of \$41,456.67 were not supported with promissory notes or letters of understanding between departments and administration. Periodic statements have not been provided to these departments. Four of eight outstanding loans totaling \$26,298.24 could not be confirmed with departments who thought their loans had been paid off or balances were lower than indicated by administration.
- Investment reconciliation of statements or supporting documentation to the general ledger is not performed on a regular basis.
- An investment committee had not been established by the campus to provide guidance and ensure that investment objectives were being achieved.

CO memo 97-08, CSU Investment Policy dated July 15, 1997, requires all trust fund or investment monies, pending disbursement for its intended purpose, be managed by a central securities provider assigned by the CSU Investment Committee. To ensure investment performance meets desired objectives and errors or irregularities have not occurred, periodic investment statements should always be received and reconciled to campus investment balances. The director of accounting indicated that, in late 1996/97, the former controller transferred responsibilities for investments to him. A number of outstanding issues have not been fully addressed since the transfer. The director of accounting also stated that investment guidance was informally provided through correspondence and ad hoc reporting. During the course of our review, the campus established an investment committee.

Investments without adequate support or periodic statements do not allow the campus the ability to monitor the investment performance and increase the risk of errors or fund misappropriations. Funds invested outside the centralized investment pool require additional resources to administer and may not adhere to objectives established in the CSU Investment Policy.

### **Recommendation 16**

We recommend that the campus:

- a. obtain adequate supporting documentation for all investments;
- b. direct the campus investment committee to monitor investment practices to ensure investments are properly supported, independently reconciled to campus records, and adhere to CSU Investment Policy requirements;
- c. complete promissory notes for loans provided to departments; and
- d. provide periodic statements to departments regarding the status of their loans.

### **Campus Response**

We concur. We are in the process of divesting of "investments" held outside the centralized investment pools, this includes several interest bearing accounts held at our bank that are used as compensating balance accounts. We should be fully divested by February 28, 1999. We have established an investment committee comprised of the Vice President - Administration, Associate Vice President for Finance and the Director of Accounting who will meet quarterly, beginning February 1, 1999, to review the investment portfolio and investment practices.

We will further amend our current investment policy to formalize departmental loans to include required record keeping and reporting. This policy will be in place by February 26, 1999.

## **TRUST FUND ADMINISTRATION**

Administration over trust fund operations was inadequate. This is a repeat finding from our prior FISMA audit.



Our review of trust fund operations noted the following:

- Policies and procedures of the campus trust administration were not documented.
- Trust agreements were not on file for four of the thirteen trust accounts sampled.
- Four of the nine trust agreements located were outdated with signature authorizations of separated employees.
- Two of the eighteen expenditures reviewed were not properly authorized according to trust or procurement documentation maintained. Four of eighteen expenditures did not have trust documentation or agreements to support authorized signers or signature specimens.
- Approximately one hundred forty trust accounts with zero balances were being maintained.
- Trust account names were not always current, nor did they generally describe the purpose of the funds.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include an established system of practices to be followed in performance of duties and functions in each of the state agencies.

SAM §19440 states that each trust account established shall be supported by documentation as to the type of trust donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw of expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of monies for administrative or overhead costs.

The director of accounting stated that the department has not performed needed follow-up to ensure trust account information was current.

When policies and procedures are not in writing, misunderstandings and improper transactions may occur. Inadequate administration over trust funds increases the risk that funds are not adequately documented, trust expenditures are not properly approved, and errors or irregularities may remain undetected.

### **Recommendation 17**

We recommend that the campus:

- a. establish written policies and procedures for opening and operating trust accounts; and,
- b. obtain adequate supporting documentation for all trust accounts.

### **Campus Response**

We concur. We have established written policies and procedures for opening and operating trust accounts. We are performing a 100% audit (to be completed by March 31, 1999) of our current records to bring us in compliance with SAM Section 19440, with the exception that we will use

signature cards maintained in the Procurement Department to monitor authorized signatories. Thus the Trust agreement will serve as authorization to establish and define the purpose of the account. The signature cards will serve as authorized users of the account.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert Caret	President
Tony Abrigo	Accounting Technician
Edmund Almazan	Accounts Receivable Supervisor
Marlene Anderson	Director of Student Financial Services
Randall Anderson	Charge Supervisor Clark Library
Wilma Babayan	Accountant
Denise Ballard	Cashier University Housing Services
Virginia Barnes	Accounting Technician / Property Officer
Pearl Bethel	Accounting Technician
Shawn Bibb	Director of Accounting & Systems & Technology Management
Yolanda Castro	Citation Enforcement Coordinator
Cleo Cuenca	Accounting Operations Analyst
Bonnie DeMalta	Production Control Supervisor
Mike Dunefsky	Manager of Systems & Technology Management
Lyle Fifield	Delivery Services Manager
Jean Fong	Accounts Payable Manager
Jacqueline Garcia	Payroll Technician
Ana Gonzales	A/P Technician
Kathryn Hill	Interim Director Information Systems
Noemi Hinchbejer	Records Clerk, Public Safety
Pearl Howell	Director of Payroll Services
Don Kassing	Vice President for Administration / Chief Financial Officer
Julie Kowalewski Ward	Circulation Department Head
Rose Lee	Associate Vice President
Cynthia Llanes	Associate Director Student Health Center
Norma Lorigo	Director of Logistical Services
Linh Ong	Accounting Technician
Rita Peth	Lead Buyer
Evelyn Ribaya	Financial Reporting Analyst
Edward Serafica	Registration Coordinator
David Sharp	Cashiering Manager
Paul Siegel	Manager of Accounting and Costing
Richard Sol	Senior Director of the Computer Center
Dan Soriano	Mail Services Manager
Gloria Sotelo	Sr. Data Entry
Marlene Trifilo	Administrative Services Coordinator
Linda Vasquez	Senior Director of Business Operations
Carl Vigil	Operations Systems Analyst / Data Security
Jon Warner	Buyer

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

Internal accounting and related operational controls established by the State of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

### **B. INTERNAL CONTROL DEFINITION**

Internal control, in the broad sense, includes controls which 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 record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

#### **2. Operational Controls**

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **C. INTERNAL CONTROL OBJECTIVES**

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

#### **D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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