

FISMA
CALIFORNIA STATE UNIVERSITY,
FULLERTON

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ABBREVIATIONS

| | |
|-------|--|
| CSU | California State University |
| CSUF | California State University, Fullerton |
| FISMA | Financial Integrity and State Manager's Accountability Act |
| IT | Information Technology |
| SCO | State Controller's Office |
| SAM | State Administrative Manual |
| SUAM | State University Administrative Manual |

INTRODUCTION

PURPOSE

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

- ▶ cash receipts are processed in accordance with laws, regulations and management policies;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management policies;
- ▶ revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies;
- ▶ cash disbursements are properly authorized and made in accordance with established procedures and adequate segregation of duties exists;
- ▶ payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled and access to personnel and payroll records and processing areas is restricted;
- ▶ purchase and disposition of fixed assets are controlled and recording 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 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 November 1998. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ procedures for receipting and storing cash, segregation of duties involving cash receipting and recording of cash receipts;
- ▶ establishment of receivables and adequate segregation of duties 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 these systems;
- ▶ procedures for initiating, evaluating, and accounting for investments; and
- ▶ establishment 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 currently responsible for conducting such audits within the CSU. This report represents our biennial review.

OPINION

We visited the California State University, Fullerton from November 17, 1998 through January 11, 1999 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 would result in significant errors and irregularities. Areas requiring improvement are found in the Executive Summary.

EXECUTIVE SUMMARY

The purpose of this section is to provide 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 [7]

SATELLITE CASHIERING [7]

Internal control weaknesses were found in the areas of cash deposits and separation of duties. The separation of duties issue is a repeat finding from our prior FISMA audit. Adequate controls involving cash collections and separation of duties decrease the risk that misappropriation of funds will not be detected.

UNCLEARED COLLECTIONS [8]

The uncleared collection accounts for student fees were not researched and cleared in a timely manner. This is a repeat finding from our prior FISMA audit. Timely clearing of collection accounts increases working capital and reduces the potential for loss of interest earnings.

ACCOUNTS RECEIVABLE [9]

AUXILIARY BILLINGS [9]

Utility billings for services rendered to auxiliary organizations and off-campus groups were not invoiced in a timely manner. This is a repeat finding from our prior FISMA audit. Invoicing or recharging outstanding obligations due to the general fund from other sources in a timely manner increases working capital and the likelihood of collecting funds.

CAMPUS COLLECTION PROCEDURES [10]

Documentation of collection efforts for student accounts and collection procedures involving the auxiliary organization for associated students were inadequate. Maintaining records of student collection efforts and establishing effective procedures to manage and follow up on auxiliary receivables increases the likelihood that all amounts owed will be collected.

LIBRARY OBLIGATIONS [11]

Administration over library obligations was inadequate. Maintaining adequate controls over the collection of library obligations increases working capital and investment earnings.

REVOLVING FUND [13]

PETTY CASH/CHANGE FUNDS [13]

Petty cash/change funds were established without proper approval. In addition, transfer receipts were not always used following a change in custodial responsibilities. The improper establishment of petty cash/change funds is a repeat finding from our prior FISMA audit. Documentation of change and petty cash fund approvals and custodial responsibilities increases employee accountability and reduces the risk of loss.

RECONCILIATIONS [14]

Monthly revolving fund reconciliations concerning vendor payments and travel advances were not occurring. The timely completion of reconciliations decreases the risk that errors and irregularities will not be detected.

FIXED ASSETS [15]

POLICIES AND PROCEDURES [15]

Policies and procedures addressing fixed assets were inadequate. When comprehensive policies and procedures are communicated to campus personnel, internal controls over fixed assets are increased.

INVENTORY [15]

Controls over property identification, property removal, and physical inventory were inadequate. Maintaining adequate controls over property inventory decreases the risk of lost or stolen property and incorrect inventory records.

RECONCILIATIONS [18]

Reconciliations of property acquisitions to the general ledger were not occurring on a timely basis. This is a repeat finding from our prior FISMA audit. Timely reconciliations reduce the risk that errors and irregularities will not be detected.

FISCAL INFORMATION TECHNOLOGY [19]

DATA SECURITY [19]

Security concerning the campus computer system was inadequate. An effective and documented data security environment not only reduces the risk of unauthorized access of systems and confidential data, but it also communicates security responsibilities to the campus.

SEGREGATION OF DUTIES/SYSTEM DEVELOPMENT [21]

The campus had not established adequate segregation of duties over application change procedures or documented a system development methodology. Proper segregation over the application change process reduces the risk of unauthorized system changes and system development methodology, standardizes application development, and reduces development time and costs.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Internal control weaknesses were found in the areas of cash deposits and separation of duties. The separation of duties issue is a repeat finding from our prior FISMA audit.

Student Health Center

Approximately \$4,900 in state revenues for x-ray fees, off-campus teaching reimbursements, and facilities rental income was deposited into campus auxiliary accounts.

SAM §8001 requires that state monies be deposited into specified local banks for credit to central accounts of the State Treasurer.

The administrative services manager of health services indicated that funds were deposited into campus auxiliary accounts at the direction of the health center director. The campus internal auditor also identified the erroneous deposit of state revenues during a health services audit conducted in November 1998.

Inadequate controls over revenues increase the risk that misappropriation of funds will not be detected.

Art Department

One art department staff member received cash at the counter, prepared deposits to the central cashiering office, and reconciled and posted the cash deposit reports from the cashier's office.

SAM §8080 requires the head of each state agency to establish and maintain an adequate system of internal control within their agencies. A key element in a system of internal control is separation of duties.

The senior director of financial operations indicated that the campus has made significant steps in reducing the amount of cash received within the art department; however, due to limited staffing within the art department, proper separation of duties was difficult to achieve.

Allowing one individual to assume all duties within the cash receipting function eliminates a control mechanism for the safeguarding of university assets.

Recommendation 1

We recommend that the campus strengthen satellite cashiering controls to ensure that:

- a. student health center state revenues are appropriately deposited into the general fund;
- b. state funds previously deposited into the CSU Foundation by the student health center are transferred to the general fund, and;
- c. proper segregation of duties and/or offsetting controls is/are implemented within the art department.

Campus Response

This finding has been corrected.

Just after the audit was completed all funds which had been generated as state revenues but deposited with the Foundation have been transferred into a state trust account. The Foundation accounts set up for the student health center have been closed except one account for true donations. Procedures are now in place to assure that any monies generated by the use of state facilities, staff, or other resources are deposited into a trust account.

The Art department now has one person receiving the cash, a second person reconciling and preparing the deposits to the central cashier's office, and the first person reconciling and posting the cash deposit reports from the cashier's office.

UNCLEARED COLLECTIONS

The uncleared collection accounts for student fees were not researched and cleared in a timely manner or always used for their intended purposes. Timely clearing of collection items is a repeat finding from our prior FISMA audit.

As of the time of our review, we identified approximately \$213,000 in collection items that had not been cleared within 90 days. We also noted approximately \$378,000 in debit balances.

SAM §10452 indicates, in part, that this account shows: the amount of cash collections being checked to determine if they are to be accepted for a fund in the State Treasury or are to be refunded to payers; and a representation of the types of reimbursements that must be applied at the time they are ordered into the State Treasury.

The director of student financial services indicated that, due to turnover in staffing and retraining, uncleared collection research and clearing of the items was delayed. The accounting compliance manager reported that debit balances of collection accounts could have resulted from a system timing feed issue, which the campus is currently researching.

Uncleared collections not processed in a timely manner and/or improper use of the uncleared collections account can result in understated revenues or overstated expenditures and may result in loss of interest to special funds.

Subsequent to our fieldwork, the campus provided documentation indicating that debit balances should be corrected to \$80,976. The change resulted from a \$297,024 double posting on September 29, 1998 and reversed on January 20, 1999.

Recommendation 2

We recommend that the campus:

- a. research and clear collections in a timely manner; and,
- b. determine the cause of debit balances within uncleared collection accounts and adjust them accordingly.

Campus Response

This finding has been corrected.

Reconciliation and clearance of items is occurring on a monthly basis.

System processing problems have been identified and corrected, so that the Direct Deposit Account (the account responsible for 90% of the debit balance identified) now processes credits through the BR feeds to FAS first and then the checks are processed through the AP feed. We have also corrected internal procedures which contributed to the problem of debit balances in some accounts.

As an item of additional information with regard to debit balances, it should be noted that the duplicate system entry for the aforementioned check in the amount of \$297,024 was posted on 26 October 1998, not on 29 September 1998, the original check date. Since the correction occurred on 20 January 1999, the correction was made within the 90-day acceptable clearance period.

ACCOUNTS RECEIVABLE

AUXILIARY BILLINGS

Utility billings for services rendered to auxiliary organizations and off-campus groups were not invoiced in a timely manner. This is a repeat finding from our prior FISMA audit.

A review of invoices through November 1998 indicated that re-charge of utility billings to both auxiliary organizations and off-campus groups had not been performed during the 1998/99 fiscal year.

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

The campus financial manager indicated that the accounting department had recently implemented a process to identify centers which do not submit recharges in a timely manner. Utility charges were identified as the one area where recharges were not processed timely. The manager of utilities and engineering indicated that a staffing shortage delayed the recharge of utilities.

Not invoicing or recharging outstanding obligations due to the general fund from other sources in a timely manner reduces working capital and the likelihood of collecting funds.

Recommendation 3

We recommend that the campus ensure that utility re-charges are invoiced to auxiliary organizations and off-campus groups in a timely manner.

Campus Response

This finding has been corrected. On 15 April 1999 Physical Plant staff submitted utility recharges for the period of May 1998 through February 1999 to Accounting Services for invoicing. These charges are currently being processed through the automated recharge system as part of April month-end, with invoices going to the auxiliaries immediately thereafter. All 1998/99 utility recharges will be billed this fiscal year.

CAMPUS COLLECTION PROCEDURES

Documentation of collection efforts for student accounts and collection procedures involving the associated students auxiliary organization were inadequate.

Collection efforts and documentation could not be located for three of thirteen student accounts reviewed. In addition, a review of auxiliary receivables and invoices revealed that, as of November 1998, the associated students auxiliary owed the campus general fund approximately \$194,000 with \$66,800 between 90 and 270 days old and no payment activity since April 1998.

SUAM §3822 requires each campus to establish procedures that provide prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls.

The director of student financial services stated that the three missing student collection files were lost or misplaced during one of several location moves made by the collections department over the past year. The director of student financial services further indicated that future objectives include documenting collection efforts on the Billing and Receivables (BR) system. The financial manager indicated that monthly invoices and follow-up phone calls were being placed to the auxiliary organization for associated students; however, the auxiliary was not responding to payment requests.

When receivables are not promptly collected, this has a negative impact on cash flow and the likelihood of collection is reduced.

Recommendation 4

We recommend that the campus strengthen procedures to ensure that:

- a. all student receivable collection efforts are documented; and,
- b. accounts receivable from associated student organizations are repaid timely.

Campus Response

This finding has been corrected.

- a. All student receivable collection efforts are being documented and the documentation centralized for reliable retrieval. Also, we have already started documenting the hold screen in BR when a repayment agreement is signed or other pertinent action occurs.
- b. In February 1999 we met with the Executive Director of the Associated Students Administration to enhance the invoicing procedure to accommodate the needs of that organization. These enhancements have been implemented and payments have been made. As of this date payments are not completely current but are close, and the remaining problems will be resolved by the end of this month.

LIBRARY OBLIGATIONS

Administration over library obligations was inadequate.

For example:

- The library was not maintaining an aging schedule that provided the total amount owed the campus and the length of time individual accounts are outstanding;
- The library system database indicated that, as of March 1999, there were library obligations totaling \$305,333. Upon our request, the campus provided the following aging schedule (by date of last update) of library obligations.

Library Obligations
March 1999

| | |
|-------|------------|
| 1993 | \$ 6,764 |
| 1994 | 5,006 |
| 1995 | 49,498 |
| 1996 | 18,006 |
| 1997 | 49,439 |
| 1998 | 83,280 |
| 1999 | 93,340 |
| Total | \$ 305,333 |

Both the library circulation department supervisor and senior director financial 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. The senior director of financial operations indicated that the campus is currently reviewing a process of placing library receivables on the Billing and Receivables (BR) system for financial reporting purposes, if deemed appropriate.

Failure to follow-up timely on library obligations increases the risk of lost revenues and provides campus administration with an inaccurate view of total outstanding accounts.

Recommendation 5

We recommend that the campus strengthen administrative procedures over library obligations to ensure that:

- a. there is an aging of library obligations, and;
- b. library obligations are included within the Billing and Receivables system.

Campus Response

This finding has been corrected.

All non-current-year and current-year library obligations more than six months old (including those which have been submitted to Franchise Tax Board for collection, which routinely occurs on an annual basis) have been input on a cash basis to the Billing and Receivables system. These charges appear on the students' accounts and must be paid before the University will provide services. The BR system will automatically generate an aging of these obligations.

Library obligations less than six months old are not being input to BR. BR is not online to the Library, and the Cashier's office is open fewer hours of the week than is the Library. By far the

greatest payment activity on library obligations is within the first six months, and we do not want services to be denied to students who satisfy their debt in the Library at times when there is no way to clear their account on BR because the cashiers office is not open.

REVOLVING FUND

PETTY CASH/CHANGE FUNDS

Petty cash/change funds were established without proper approval. In addition, transfer receipts were not always used following a change in custodial responsibilities. The improper establishment of petty cash/change funds is a repeat finding from our prior FISMA audit.

We noted that:

- three change/petty cash funds (public safety, health center, and art) were established without the approval or knowledge of the centralized accounting department. In addition, the \$800 change fund for the public safety office and did not have the required approval of the Department of Finance.
- two student financial service change/petty cash funds did not have correct approval authorizations from the Department of Finance. Student Financial Services had increased both funds by a total of \$1,500 from the amounts previously approved by the Department of Finance..
- four of the sixteen petty/change funds that had been in effect during fiscal year 1997-98 were not supported by signed transfer receipts when there was a change in custodian.

SAM §8112.1 requires that criteria outlined in the state regulations regarding revolving funds be followed to assure that cash funds are properly established. SAM §8111.1 indicates that each change fund in excess of \$500 be established only after approval from the Department of Finance. SAM §8111.2 indicates that transfers of fund custody require that: (a) a personal audit of the fund is made by the employees directly concerned; and (b) a receipt has been given by the newly assigned custodian to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the Accounting Officer.

The internal control manager stated that cash/change funds were established through the withholding of funds from deposits and without notification/approval of financial operations. Additionally, he indicated that missing change in custodian receipts was an oversight. By the conclusion of the audit, all noted that change/petty cash funds were properly approved, and signed transfer receipts of change custodian had been obtained.

Internal control over cash funds is compromised when the required accountability is not enforced. Establishing change/petty funds without appropriate approval also compromises campus accountability.

By the conclusion of the audit, all noted change/petty cash funds were properly approved and signed transfer receipts of change custodian had been obtained.

RECONCILIATIONS

Monthly revolving fund reconciliations concerning vendor payments and travel advances were not occurring.

The campus last performed a reconciliation of vendor payments and travel advances during April 1998. Our review of travel advances recorded in the Financial Reporting System and compared to source documents indicated a variance of approximately \$29,000 as of November 1998. The campus is currently researching the variance. Vendor payments were not reconciled due to difficulties in gathering source documentation for reconciliation. However, the ending balance for vendor payment advances, as of November 1998, was approximately \$7,500.

SAM §7900 and §7908 require all reconciliations to be prepared monthly within 30 days of the preceding month and signed and dated by both preparer and reviewer. SAM §8193 requires revolving fund resources to be reconciled with the amount of cash advanced.

The financial manager indicated that, during March and April 1998, the campus hired a consultant to address problems related to the reconciliation of travel and vendor payments.

When reconciliations are not performed properly or timely, errors and misappropriations may not be detected.

Recommendation 6

We recommend that the campus:

- a. strengthen procedures to ensure that all revolving fund resources are reconciled to source documents on a monthly basis; and,
- b. ensure that all reconciliations for previous months are complete.

Campus Response

We concur. We have implemented procedures to assure timely reconciliations, and have been working diligently to analyze and correct the problems of previous months. We expect this analysis and correction effort to be completed by the end of this month.

FIXED ASSETS

POLICIES AND PROCEDURES

Policies and procedures addressing fixed assets were inadequate.

We found that current campus policies and procedures did not address issues such as: accountability and responsibility for university equipment; control over additions and deletions of inventory; procedures for tagging equipment; inventory requirements; off-campus use of equipment; property sales and dispositions and; property inventory reconciliations to financial records.

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

The property coordinator indicated that, due to limited staffing resources, the campus has not issued policies and procedures for fixed assets

Internal control is compromised when policies and procedures concerning fixed assets are not documented and communicated to campus personnel.

Recommendation 7

We recommend that the campus develop comprehensive fixed asset policies and procedures, to include areas such as: accountability and responsibility for university equipment; control over additions and deletions of inventory; procedures for tagging equipment; inventory requirements; off-campus use of equipment; property sales and dispositions and; property inventory reconciliations to financial records. Additionally, the campus should ensure the communication of these policies to applicable campus departments.

Campus Response

We concur and are in the process of implementing the recommendation as suggested. This effort will be completed by October 1999.

INVENTORY

Controls over property identification, property removal, and physical inventory were inadequate.

Property Identification

Fixed assets were not always tagged or entered into property inventory in a timely manner.

Thirteen of twenty-two (59%) 1997-98 property acquisitions selected for review were not tagged or entered into the property inventory for as long as five months after they were delivered to the campus.

SAM §8650 and §8651 require departments 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's environment.

The property coordinator indicated that property identified without tags was delivered directly to departments and did not pass through the campus's receiving area. Due to the limited staffing resources of the property office, fixed assets delivered directly to departments were not always tagged or added to inventory in a timely manner

When property is not tagged and entered on the property inventory, property records are understated and the risk that property will be lost or stolen is increased.

Removal of Property

Procedures involving the removal of property items declared lost, stolen, sold, or salvaged from the campus inventory were unsatisfactory and supporting documents for these transactions were not retained. This is a repeat finding from our two prior FISMA audits.

We noted that:

- approved property survey reports were not on file to support the deletion of two fixed asset items (one greater than \$5,000) that were deleted from the property inventory and/or general ledger during fiscal year 1997/98.
- thefts of state property reported to the property office were not surveyed or deleted from the property inventory. For fiscal year 1997/98, public safety reported 10 thefts totaling approximately \$40,000.
- property sales occurring during fiscal year 1997/98 were not surveyed or removed from the property inventory and/or general ledger. The property coordinator indicated that approximately 150 items were sold during this period, thus generating revenues of \$16,000.
- there is an approximate 1-year backlog in unprocessed property deletions. The property coordinator stated that the total number of unprocessed property deletions (or \$ value) was not readily determinable.

SAM §8641, 8642, and 8643 require adjustment of the property accounting records when property items are sold, traded in, lost, stolen, or destroyed.

The property coordinator indicated that, due to expanded duties and limited staff resources, this area had not been given a high priority.

When property that is no longer being utilized is not removed from the inventory, both property and accounting records are misstated. Additionally, failure to use property survey reports reduces accountability over disposal of state property.

Physical Inventory

The campus had not taken a complete physical inventory in the past three years. As a result, the inventory results have not been reconciled to accounting records.

SAM §8652 requires a physical count of all property to be taken and a reconciliation of the count to accounting records be completed at least once every three years.

The property coordinator indicated that, due to limited resources within the property office, a physical count of all property was not taken. He further stated that, because a new property clerk would be hired in January 1999, this would allow for the required inventory to be performed at regular intervals.

Failure to take a physical inventory and reconcile it to accounting records increases campus exposure to loss/misuse of fixed assets.

Recommendation 8

We recommend that the campus strengthen procedures to ensure that:

- a. fixed assets are tagged and added to campus inventories at the time the property is received;
- b. fixed assets are deleted from inventory records in a timely manner and supported by approved property survey reports; and,
- c. a physical inventory is completed at least every three years and reconciled to accounting records.

Campus Response

We concur and have made substantial progress in this area.

We have hired an inventory clerk to assist in tagging and recording items delivered to all campus locations. He has brought our tagging and records current as of the early part of this fiscal year and is continuing to progress in this effort. We are also establishing funds for two full-time permanent positions in lieu of the intermittent help devoted to property inventory functions in the past. This will enable us to collect maintain current and consistent data and delete items as appropriate from our property records in a timely manner. By October 1999 we expect to have all property tagged and added to inventory or surveyed and deleted from inventory as required, and to have both staffing and controls in place to assure that inventory records continue to be up-to-date.

We will soon be hiring several 90-day temporary staff to perform a campus-wide physical inventory of all property. We expect to have this effort completed and an updated reconciliation to the general ledger accomplished by October 1999. Each summer thereafter we will hire a 90-day temporary clerk to complete a physical inventory of one third of the campus.

RECONCILIATIONS

Reconciliations of property acquisitions to the general ledger were not occurring on a timely basis. This is a repeat finding from our prior FISMA audit.

We noted the following weaknesses in existing procedures:

- In June 1998, only one general ledger adjustment was performed for fiscal year 1997/98 year. During this adjustment, a total of 11 fixed asset items were added or capitalized totaling approximately \$94,000, and 1 capitalized item for \$6,700 was deleted. Discussions with the property coordinator indicated that approximately \$2 million dollars of equipment, purchased in 1997/98 and 1998/99, has not been capitalized or added to the university's general ledger.
- Fifteen of the sixteen equipment purchases reviewed, with an individual value over \$5,000 and totaling approximately \$250,000, were not entered into the fixed asset general ledger. Our review identified fixed assets that had been received up to one year previous without being capitalized in the campus financial records.

SAM §7969 requires that, at the end of each month or quarter, agencies will reconcile the equipment expenditures from the current year's state operations appropriations with accretions of major property to the property ledger.

The property coordinator indicated that, due to staffing limitations, property inventory information was not reported to the accounting office. The accounting compliance manager indicated that property reconciliations could not be performed until property inventory information was provided from the property office.

Not completing property reconciliations in a timely manner increases the risk that errors and irregularities will not be detected.

Recommendation 9

We recommend that the campus perform monthly or quarterly reconciliations of property records to equipment expenditures. To ensure that capitalized fixed assets are recorded timely in the general ledger, reconciliation variances should be reviewed.

Campus Response

We concur and are currently implementing the required reconciliation process. Since the audit we have added fields to the campus property records system to accommodate the proper accounting method for recording property and fixed assets. Several reconciling items have been corrected. Once this effort is complete, future reconciliations will be accomplished more efficiently. We fully anticipate having accomplished all reconciliations for 1998/99 by the end of the fiscal year, with all property and fixed assets booked to the general ledger. Then once the physical inventory of property is accomplished this summer, we will again reconcile to the general ledger.

FISCAL INFORMATION TECHNOLOGY

DATA SECURITY

Data security concerning the campus computer system was inadequate.

We noted that:

- password configurations had not been evaluated in light of new technology;
- physical access controls to the computer room were inadequate; and,
- a security policy for computer systems and data had not been formulated and communicated to the campus.

To ensure that passwords are not easily guessed, password configuration requires that they be changed periodically, restricted to an acceptable number of unsuccessful attempts, and are of an appropriate number of characters. Other standard security practices include: physical access to computer rooms should be secured and; security policy for computer systems and data should include regulatory, legal, and management directives for accessing computers, software, confidential data, and the internet.

The manager, operating systems group, indicated that the impact of new technology to circumnavigate data systems had not been reviewed to ensure that data security configurations are updated periodically. He also indicated that, due to limited access by university employees to mainframe computers and data, a security policy had not previously been required.

Without adequate data security, the campus runs the risk of unauthorized access to systems and confidential data.

Recommendation 10

We recommend that the campus:

- a. reconfigure system security software (password configuration) to appropriate security settings;
- b. strengthen physical security of the campus computer room; and,
- c. develop and distribute a campus data security policy.

Campus Response

- a. Last month we implemented a RACF change which limits users to a certain number of attempts to specify a valid userid/password combination. All logon violations are tracked and reported, even including legitimate typographical errors by authorized users who mis-key their password. Next fall we will implement additional changes, including a change in the required configuration of characters for passwords. Most mainframe users have access only to production CICS regions which they need for their job, with only a small number of users having TSO privileges. Both FRS and SIS+ impose a second level of security with the use of userids/passwords to those specific applications. The required configuration of characters for these passwords is similar to what we will be implementing next fall for RACF passwords.
- b. This problem was very specific and has been corrected. It is monitored regularly.
- c. The following procedures are already in place:
 - In order for a campus user to obtain an FRS account number which would provide access to specifically authorized FRS online screens as well as access to that same data over the Internet, he must apply for an FRS account. The instructions to do so are at <http://bfa.fullerton.edu>. The instructions for the application for an FRS account number include the requirement for signatures from the appropriate department head/dean/director.
 - In order for a campus user to obtain a SIS+ account number which would provide access to specifically authorized SIS+ online screens, he must apply for a SIS+ account through Admissions and Records. The application process is hard-copy and also requires appropriate signatures. The application form contains language explaining the privacy rights of students and requires the employee to sign acknowledging he has read and agreed to the requirements to obtain an account. Each SIS+ account expires annually, and the employee must read and sign a new account authorization document each year.

In addition to the procedures already in place described above, the Office of Information Technology plans to create a website similar to the San Francisco State University website at <http://www.sfsu.edu/~helpdesk/docs/rules/security.htm>. This effort will be completed by August 1, 1999.

SEGREGATION OF DUTIES/SYSTEM DEVELOPMENT

The campus had not established adequate segregation of duties over application change procedures or documented a system development methodology.

We found that programmers were allowed to move applications from the testing environment into the production environment.

SAM §8080.1 indicates that a key element in a system of internal audit is segregation of duties. Programmers should not be allowed to move their own developments and changes from test to production environment. A documented system development methodology provides guidelines and defines the phases, activities, responsibilities, and end products needed to bring discipline and consistency during a system development process.

The coordinator of central computing indicated that, due to the experience level and longevity of programmers at CSUF, neither segregation of duties nor a documented system development methodology had been required.

Without adequate segregation of duties, programmers could make unauthorized changes, and consultants or new programmers could increase the cost of system development by not working within the parameters of a documented development methodology.

Recommendation 11

We recommend that the campus:

- a. ensure proper segregation of duties for installing applications and changes into the production environment and;
- b. document a system development methodology to include specific phases, tasks, and definitions of systems development.

Campus Response

We already have the following procedures in place:

- Users are required to submit a written request (via email) for any programming changes (either fixes or enhancements). All such requests are logged in an Excel file stored on the server and accessible to the users as well as the programmers. A hard copy of each request is also retained. As requests are completed, the programmers add dates and appropriate comments to the Excel log.
- If the campus programmers can handle the programming request, they make the necessary changes and do the testing. They then ask the user to test the changes and send email approval to put the changes into production. The responsible programmer then puts the changes into production and tests one last time to ensure the task is successfully completed.

- If the programming request requires vendor support the vendor makes the necessary changes and does the testing, working closely with the responsible programmer in the testing phase. Users are again required to test the changes and send email approval to put the changes into production. The responsible programmer (not the vendor) then puts the changes into production and tests one last time to ensure the task is successfully completed.

Additionally, our campus will utilize option #1 from the list of audit recommendations to ensure proper segregation of duties, i.e., Accounting Control Reports will be utilized to detect whether any unauthorized transactions were processed. In fact, our campus has been utilizing this option all along but may not have made that clear during the audit.

From FRS, job FSJ002 (a batch job which runs nightly) generates a daily transaction listing (AD010) which is reviewed by the accounting staff each morning.

From SIS+, job BBD100 is the accounting feed from SIS+ to FRS which runs weekly and produces various reports and files. Job BBR340 runs daily and is a cashier's daily balance report. Procedures are already in place for the cashier's to review the BBR340 daily and reconcile it to money received that day. In addition, procedures are already in place for the cashiering staff to reconcile the BBD100 output to the week's accumulation of output from BBR340.

Other procedures are already in place to reconcile the BBD100 to FRS. BBD100 generates a BU file which becomes part of the FRS Data Warehouse to be used in the reconciliation of SIS+ to FRS.

APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u> | <u>Title</u> |
|----------------------|--|
| Milton Gordon | President |
| Barbara Bloomenstein | Supervisor, Library Circulation |
| E. Sue Boeltl | Senior Director, Financial Operations |
| Jay Bond | Associate Vice President Facilities Management |
| Grace Castillo | Accounts Payable Manager |
| Helen Cho | Accountant |
| Ruby Cook | Coordinator, Central Support Services |
| James Corbett | Manager of Utilities and Engineering |
| Richard Defina | Instructional Support Technician, Art Department |
| Alicia DeGuzman | Accountant |
| Delores Daoud | Director, Student Financial Services |
| Marilou Encina | Payroll Operations Supervisor |
| Elizabeth Grace | Procurement Officer |
| Gary Gardner | Financial Manager |
| Joe Ferrer | Director, Parking and Transportation Services |
| Flora Farzad | Accounting Compliance Manager |
| Willie Hagan | Vice President, Administration |
| Holly Hall | Assistant Director, Physical Plant |
| Susan Hume | Internal Auditor |
| Kathie Ip | Accountant |
| Vennita Jackson | Lead Accounts Payable Technician |
| Terry Jarmon | Property Coordinator |
| Susan Kachner | Coordinator of Central Computing |
| Pamela Losco | Administrative Services Manager, Student Health Center |
| Alexander Landeros | Manager, Operating Systems Group |
| Judy Melchior | Coordinator, Community Services Operations |
| Danny Miranda | Manager, Logistical Services |
| Carlos Navarrette | Internal Controls Manager |
| Sherri Newcomb | Chief Financial Officer |
| Linda Osburn | Travel Coordinator |
| Michael Parker | Chief Information/Technology Officer |
| Cheryl Perreira | Director, Procurement and Business Services |
| Darlene Stevensen | Director, Housing and Residential Life |
| Ruth Richardson | Extended Education , Director of Operations |
| Gaye Rodgers | Accountant |
| Irma Torres – Garcia | Lead Cashier |
| Keiko Takahashi | Manager, Information Technology |
| Willem Van der Pol | Interim Director, Physical Plant |
| Roberta Wallstrom | Assistant Director of Student Financial Services |
| Anna Wang | Accountant |

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.