

FISMA
CALIFORNIA STATE UNIVERSITY,
FRESNO

Report Number 99-05
April 13, 2000

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ABBREVIATIONS

BITS	Business Information Technology Services
CMS	Collaborative Management Systems
CSU	California State University
ETF	Employee Transaction Form
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
FY	Fiscal Year
IRS	Internal Revenue Service
IS	Information Systems
SCO	State Controller's Office
SUAM	State University Administrative Manual

INTRODUCTION

PURPOSE

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

- ▶ cash receipts are processed in accordance with laws, regulations and management policies;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management policies;
- ▶ 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 are restricted;
- ▶ purchase and disposition of fixed assets are controlled and assets are promptly recorded 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 1998 to November 1999. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ procedures for receipting and storing cash, segregation of duties involving cash receipting and recording of cash receipts;
- ▶ establishment of receivables and adequate segregation of duties regarding billing and payment of receivables;
- ▶ approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;
- ▶ limitations on the size and types of 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
- ▶ establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

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. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required state agencies to 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 CSU Fresno campus from October 4, 1999 through December 3, 1999 and made a study and evaluation of the accounting and administrative controls in effect as of December 3, 1999. Our study and evaluation was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

CSU Fresno's management is responsible for establishing and maintaining adequate internal controls. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal controls, communicating requirements to employees, and assuring that internal controls are functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements; and
- financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5 and Trustee policy.

Our audit disclosed conditions which, in our opinion, if not corrected would result in significant errors and irregularities. Many of these conditions, as noted in the report, were due to the involvement of the campus in a PeopleSoft financial information system implementation. At the beginning of our review, the campus had been operating in this environment for approximately two months. With this in mind, we found that the campus did not maintain adequate internal controls over the following areas: cash receipts, credit card disbursements, accounts receivable, purchasing, revolving funds, and fixed assets. These conditions, along with other weaknesses, are described in the Executive Summary below and in the body of the report.

In our opinion, due to the effect of the weaknesses described above, the CSU Fresno's accounting and administrative controls in effect as of December 3, 1999, taken as a whole, were not sufficient to meet the objectives stated above.

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

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]

Cash control weaknesses were found at each of the four satellite cashiering areas visited. Cash control weaknesses at Parking is a repeat finding from our prior FISMA audit. Adequate accounting and control of cash collections and deposits decrease the risk that misappropriation of funds will not be detected.

APPLICATION FEE RECONCILIATION [10]

Application fee reconciliations were inadequate. Adequate fee reconciliations and reviews decrease the risk that errors and irregularities will not be detected.

ACCOUNTS RECEIVABLE [10]

Documentation of accounts receivable collection efforts was unsatisfactory. Proper documentation of such efforts increases the likelihood that all amounts will be collected.

PURCHASING [11]

PURCHASE APPROVALS [11]

Procedures related to the approval of purchases were inadequate. Improving such procedures decreases the risk of inappropriate expenditures.

PURCHASING AGENTS [13]

Purchasing limitations for buyers had not been developed. Controls over buyers' duties were deficient. Sufficient overview of such duties decreases the risk of improper purchases.

REVOLVING FUND [13]

CHANGE FUNDS [13]

A change fund had been established without proper authority and had not been subject to periodic independent cash counts. Timely counts of properly authorized change funds decrease the risk that missing funds will not be detected.

POLICIES AND PROCEDURES [14]

Written revolving fund policies and procedures had not been developed. Proper documentation and communication of policies and procedures can reduce the risk of inappropriate actions.

CREDIT CARD DISBURSEMENTS [15]

Non-original detailed receipts were erroneously submitted in support of credit card payments. Adequate supporting documentation reduces the risk of duplicate payments for goods and services.

PAYROLL/ PERSONNEL [15]

Signatures on payroll/personnel transaction form signature cards were not on file in the payroll office. The use of signature authorization cards reduces the risk of unauthorized payroll/personnel transactions.

FIXED ASSETS [16]

AUCTIONED PROPERTY [16]

Duties related to auctioned property were not properly segregated. Establishing proper segregation of duties decreases the risk of misappropriated assets.

PHYSICAL INVENTORY [17]

Management of cyclical physical inventories and reconciliations with property records were inadequate. Improving controls over such areas reduce exposure to loss or misuse of fixed assets.

PEOPLESOFT IMPLEMENTATION [18]

BANK RECONCILIATIONS [18]

Bank reconciliations were not prepared or reviewed timely. The timely completion of bank reconciliations decreases the risk that errors and irregularities will not be detected.

OTHER RECONCILIATIONS [19]

Revolving fund, state controller's office (SCO) expenditure, and investment reconciliations were not performed timely. The timely completion of reconciliations increases the ability to detect and correct errors and irregularities.

REPORTS [20]

The open purchase order report and accounts receivable aging report were not currently maintained. Maintaining current aging schedules improves management of collection procedures and timely reviews of open purchase orders mitigate resolution of delivery delays and lost orders.

CLEARING ACCOUNTS [21]

Uncleared collections and travel advances were not researched and cleared in a timely manner. The timely clearance of outstanding travel advances allows resources to be available for other uses and limits the potential for loss of revenue from uncollectable accounts, and the timely clearing collection accounts increases working capital and decreases the potential for loss of interest earnings.

USER PROFILE CONTROLS [22]

User profile controls on the PeopleSoft system were inadequate. Assuring proper access to PeopleSoft system screens decreases the risk of unauthorized access and inappropriate actions.

OFFSITE BACKUP [23]

Backup data for the PeopleSoft system was not stored offsite. Storing backup data offsite decreases the risk that data will be lost in the event of a disaster.

DATA SECURITY CONFIGURATION [24]

The setup configuration for passwords in the PeopleSoft system is inadequate. Adequate configuration setup decreases the risk of unauthorized access.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash control weaknesses were found at each of the four satellite cashiering areas visited. Cash control weaknesses at Parking is a repeat finding from our prior FISMA audit.

The initial satellite cashiering areas selected for review, including health center, parking, and college of arts and humanities, contained several cash control weaknesses. Due to issues raised during our audit fieldwork, we also visited the admissions office.

Cash control weaknesses included insufficient controls over access to cash receipts, inadequately separated cash receipting duties, and a lack of regular, detailed reconciliations of cash receipts to transaction source documents.

Health Center

Cash control weaknesses noted at the main health center on October 13, 1999 included:

- access to the Health Center automated cashiering system was not limited to the individual who logged into the system;
- accountability for cash was not localized when two or more persons had access to the cash drawer. Six cashiers had access to the cash drawers;
- pre-numbered receipts were not issued when cash was received from students;
- checks were not restrictively endorsed until the following morning; and
- funds for deposit were held in an unsecured location prior to being transmitted to the central cashier.

Additional cash control weaknesses observed at the pharmacy included:

- cash overages and shortages were not reported; and
- accountability for cash was not localized when two or more persons had access to the cash drawer. Two pharmacists and nine student assistants had access to the cash drawer.

The associate director of student health and psychological services stated that because of the smaller-scale nature of its operations, controls over cashiering functions were limited. The pharmacist indicated that he was not aware of the requirement to record cash overages and shortages.

Parking

Cash control weaknesses noted at the parking office on October 27, 1999, included:

- a lack of separation of duties/additional management oversight for parking citations. One employee had access to cash, posting of citations, and remitting cash received to the central cashier;
- citation collections were not reconciled to daily receipts;
- daily parking permit dispenser revenue was not reconciled with monthly activity reports generated from the dispensers;
- coin parking meter and daily parking permit dispenser receipt revenue tallies were not subject to trend analysis to determine the reasonableness of revenues reported as compared to actual amounts deposited; and
- parking decal reconciliations were not adequately performed. There was no reconciliation to the used/unused decals.

The parking administrator indicated that weaknesses over parking were due to the limited number of personnel. He recently added one additional staff member to take over some of the cashiering functions.

College of Arts and Humanities

Cash control weaknesses found at the College of Arts and Humanities on October 13-14, 1999 included:

- pre-numbered receipts were not issued when cash was received from students;
- checks were not restrictively endorsed at the end of the working day; and
- checks were retained more than one month and held in an unsecured location prior to being transmitted to the central cashier.

The administrative assistants and the assistant to the dean of the College of Arts and Humanities stated they were not aware of the SAM requirements.

Admissions Office

During our visit to the admissions office on October 26, 1999, we observed that checks were not adequately safeguarded. They were held in an unlocked supply cabinet prior to being transmitted to main cashier.

The administrative assistant in admissions, records, and evaluations stated that, due to the volume of applications received, student applications and checks were held in a supply cabinet.

SAM §8020 through §8023 states, in part, that:

- a separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to the time of its deposit;
- a pre-numbered receipt be given for all collections of coin and currency;
- deposit information be recorded in a manner whereby it can be readily audited; and
- all checks, money orders, and warrants received for deposit be restrictively endorsed for deposit as soon as practicable after receipt, but no later than the end of the working day.

SAM §8032.1 states, in part, that agencies that do not have a safe, vault, money chest, or other comparable storage adequate to safeguard cash will accumulate collections until they amount to \$250 in cash or \$10,000 in cash, checks, money orders, and warrants, whichever occurs first.

SAM §20003 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets. This includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

Inadequate accounting and control of cash collections and deposits increase the risk that misappropriation of funds will not be detected.

Recommendation 1

We recommend that the campus, at a minimum, take the following actions with respect to all satellite cashiering operations:

- a. ensure that all cash collections are deposited timely;
- b. establish procedures to ensure that cash collections are adequately safeguarded;
- c. ensure that checks are restrictively endorsed by the end of the day;
- d. establish appropriate reconciliation procedures to ensure proper accountability of cash collections;
- e. establish procedures to ensure that pre-numbered receipts are issued;
- f. establish procedures to ensure that cash overages and shortages are reported; and
- g. establish procedures to segregate duties relating to the public safety citation function.

Campus Response

We concur with the auditor's recommendation. Accounting services will prepare specific procedures for operating satellite cashiering functions. These procedures will be provided to all satellite cashiering areas and training sessions will be conducted. The procedures will include periodic follow-up reviews by the accounting office to ensure compliance. The procedures will be implemented by October 2000.

APPLICATION FEE RECONCILIATION

Application fee reconciliations were inadequate.

We reviewed the fee reconciliations from July 1998 to September 1999 and found that names of the preparer and reviewer, including dates prepared and reviewed, were not shown on the reconciliation.

SAM §7908 requires all reconciliations to show the name of the preparer and reviewer along with the date prepared and reviewed.

The university controller indicated that the delay was due to the PeopleSoft implementation.

Inadequate fee reconciliations and reviews increase the risk that errors and irregularities will not be detected.

Recommendation 2

We recommend that the campus include the names of the preparer and reviewer, including dates prepared and reviewed, on the fee reconciliation.

Campus Response

We agree that signatures and dates of the individuals preparing and reviewing the fee reconciliation should be included on the reconciliation document. However, we disagree with the finding that “Application fee reconciliations were inadequate.” The fee reconciliation is being prepared, analyzed, reviewed, and appropriate follow-up is occurring. The individuals completing these tasks neglected to document their actions. This has been added to our procedures and all future reconciliations will be signed and dated.

ACCOUNTS RECEIVABLE

Documentation of accounts receivable collection efforts was unsatisfactory.

We reviewed the outstanding receivables as of October 31, 1999 and noted that eight of fourteen non-student accounts receivable (\$121,562.75 of \$135,630.34) reviewed did not have documentation showing follow-up collection efforts.

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 university controller stated that follow-up calls occurred but were not recorded.

Improper documentation of accounts receivable collection efforts decreases the likelihood that all amounts will be collected.

Recommendation 3

We recommend that the campus establish and implement procedures to ensure that account collection efforts are timely and documented.

Campus Response

We disagree in part with the wording of the recommendation. The Campus has written procedures on accounts receivable management (including timely collection efforts) and these procedures were being followed. However, the procedures did not address the need for adequate documentation of collection efforts. The campus is currently working on this matter, and revised procedures will be implemented in June 2000.

PURCHASING

PURCHASE APPROVALS

Procedures related to the approval of purchases were inadequate.

We reviewed seventy-five purchases, including eight credit card payments, covering the period of June to September 1999 and found the following weaknesses:

- two purchases were made prior to requisitions being submitted to the purchasing department;
- documentation relating to the approval of six library purchases was not retained;
- three of eight credit cards receipts reviewed indicated that a person other than the card holder had made a purchase using the credit card; and
- two credit card holders were also the approving officers and were reviewing and approving their own credit card statements.

Campus procedures require that the credit card be used by and accessible to only the person authorized to use the card and whose name appears on the face of the card.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director of purchasing stated that the credit card users were instructed not to share their credit cards. He also indicated that the two cardholders who approved their own credit cards were also the heads of the departments. With regards to submission of requisitions after the purchases were made, the purchasing and accounts payable departments were aware of the problem and had jointly issued a memo to all departments addressing the matter.

The head of library acquisition indicated that, due to lack of storage space, documents relating to approval of the library purchases were not retained.

Inadequate procedures related to the approval of purchases increase the risk of inappropriate expenditures.

Recommendation 4

We recommend that the campus strengthen procedures to ensure:

- a. items are not purchased prior to approval of the requisition by the purchasing department;
- b. supporting documents are retained along with the purchase order;
- c. credit card purchases are made only by authorized card holders; and
- d. resolution of the issue of cardholders rests with the final approval authority.

Campus Response

We concur with recommended items a. and b. With regards to item a., the accounting and procurement offices issued joint instructions to the campus forbidding the use of Confirming Purchase Orders in February 2000, and these instructions are being enforced. With regards to item b., the finding was isolated to the library, which has been instructed to change its retention procedures so that supporting documentation is retained. This will be completed by the end of May 2000.

We disagree with item c. Campus policy already forbids procurement card users to share their credit cards with anyone. In those instances where this practice occurs the cardholder is notified of the policy in writing. If the practice occurs a second time the card is cancelled. Accounts payable performs a "post-audit" review to determine when these situations occur and notifies the procurement office of the violations.

We disagree in principle with item d. Our argument against this finding is based on the fact that if the procurement cardholder has budget authority, such as a department head or vice president, no one else should have to approve their procurement card purchases. These individuals already have authority to purchase merchandise through the requisition/purchase order process without supervisory review. The rationale for the establishment of the procurement card was to eliminate the review of low dollar value acquisitions. Requiring this additional level of approval would discourage and impede the use of procurement cards by these individuals and would tend to return us to a less efficient process. The Brandon Report, a system-wide consultant report on procurement activities, stated that customers may be reluctant to use procurement cards because of the many controls, limitations, and administrative requirements placed on the use of the card.

However, having stated the above, we are reluctantly changing our procurement card procedures to include supervisory approval for all cardholders. Revisions to the procedures will be implemented by June 2000.

PURCHASING AGENTS

Purchasing limitations for buyers had not been developed. Controls over buyers' duties were deficient.

We found that buyers were able to make purchases of any amount without approval by their supervisors. This authorization had not been reduced to writing.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Good business practices provide that a buyer's purchasing authority is reduced to writing. In addition, it is prudent to establish a purchase limit for which supervisory oversight and approval is required for amounts above this limit.

The director of purchasing feels that there is adequate internal controls for the buyers. He indicated that no known improper behavior has occurred.

Not establishing written purchasing limits for buyers increases the risk of errors and irregularities.

Recommendation 5

We recommend that the purchasing level for buyers be reduced to writing.

Campus Response

We concur with the auditor's recommendation. Purchasing limits have now been reduced to writing for all buyers.

REVOLVING FUND

CHANGE FUNDS

A change fund had been established without proper authority and had not been subject to periodic independent cash counts.

We found that, although the parking office was using a \$260 change fund, there was no record that this fund had been properly authorized. The origin of this fund was not known and it is assumed that it was established from cash receipts. This change fund has not been subject to an independent cash count.

Campus procedures require the petty cash/change fund to be requested by the departments and approved by the director of accounting.

SAM §20003 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The director of accounting services indicated that the change fund at the parking office was created without his knowledge or approval. Hence, it was not included in the scheduled cash counts.

Not performing timely counts of properly approved change funds increases the risk that missing funds will not be detected.

Recommendation 6

We recommend that the accounting office approve the parking office change fund and subject this fund to independent cash counts.

Campus Response

We concur with the auditor's recommendation. Accounting Services has approved the parking office change fund of \$260. This change fund is now included in the listing of campus change funds, and will be subject to periodic independent cash counts.

POLICIES AND PROCEDURES

Written revolving fund policies and procedures had not been developed.

SAM §20003 states that there should be an established system of practices to be followed in the performance of duties and functions and that it represents a control weakness if policy and procedure manuals are either not up to date or do not exist.

The accounting manager was aware of this issue and will begin developing appropriate procedures.

A lack of written policies and procedures and communication of this information increases the risk of inappropriate acts.

Recommendation 7

We recommend that revolving fund policies and procedures be documented and communicated to applicable staff.

Campus Response

We concur with the auditor's recommendation. Accounting Services will develop written revolving fund policies and procedures and will communicate them to appropriate staff. This will be accomplished by October 2000.

CREDIT CARD DISBURSEMENTS

Non-original detailed receipts were erroneously submitted in support of credit card payments.

Current campus policy requires a detailed receipt when using the purchasing card. We noted six non-original detailed receipts were submitted by a department.

SAM §8422.1 states that original invoices or certified copies of original invoices are needed to support payments.

The university controller indicated that the non-original invoices were submitted by one department.

When original invoices are not required in support of a vendor payment, there is an increased risk of duplicate payments for goods and services.

Recommendation 8

We recommend that the campus reiterate to the department that original invoices are required to support all expenditures.

Campus Response

We concur with the auditor's recommendation. The department in question will be reminded of the requirement to submit original invoices. This will be completed by May 31, 2000.

PAYROLL/PERSONNEL

Signatures on payroll/personnel transaction form signature cards were not on file in the payroll office.

During the course of our review, we found that nine employees from the human resources department were authorized to approve employee transaction forms (ETFs). However, the payroll office had not been provided specimen signatures of these employees. In addition, the payroll department did not maintain a file of signatures of approved staff duly appointed and designated to submit payroll/personnel transaction forms. As a result, verification of authorized signatures did not occur.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The human resources specialist indicated that she was not aware that signature cards were needed for the authorized signatories. Subsequent to our audit, the director of human resources provided payroll a list of authorized signatories.

When signature authorization cards are not used to verify signatures, there is an increased risk of improper or unauthorized transactions.

Recommendation 9

We recommend that the campus develop and implement procedures regarding the use of signature verification cards for all payroll transactions.

Campus Response

We concur with the auditor's recommendation. The payroll office has been provided with a list of employees authorized to approve employee transaction forms (ETFs). The payroll office is now performing the verification of authorized signatures. Written procedures for processing ETFs has been updated to include this verification.

FIXED ASSETS

AUCTIONED PROPERTY

Duties related to auctioned property were not properly segregated.

Our review of procedures related to the auctioning of surplus government assets indicated that the duties associated with this process were not properly segregated. For example, the inventory control clerk: prepares an auction report that lists the assets turned over to the auction company; receives monies collected from the auction company for the auctioned assets; reconciles the cash receipts to the auction report, and remits the receipts to the main cashier for deposit. We found no evidence of supervisory oversight of the auction process or that the auction report had been reviewed.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for State property. These 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 university controller stated that the lack of segregation of duties was caused by the retirement of a manager and subsequent reassignment of duties.

Without proper segregation of duties for auctioned property, there is an increased risk of misappropriated assets.

Recommendation 10

We recommend that the campus establish procedures to oversee the auctioned inventory including:

- a. separating duties relating to preparation of the auction report, receipt of auction proceeds, and fixed asset ledger maintenance; and
- b. timely oversight of auction events.

Campus Response

We concur with the auditor's recommendation. Procedures related to auctioned inventory will be modified to include the separation of duties. The Director of Procurement and Support Services will review all auction report documentation immediately after every auction. This change will be implemented by July 2000, prior to the next scheduled auction.

PHYSICAL INVENTORY

Management of cyclical physical inventories and reconciliations with property records were inadequate.

Our review of physical inventory procedures disclosed the following:

- the totals of property records were not reconciled to the general ledger. Prior to June 1999, the campus prepared the listing of fixed assets transactions monthly;
- four of thirty-two inventory items reviewed were noted missing during our physical inventory observation; and
- one item was transferred between departments without proper notification to the property clerk.

SAM §8643 requires that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report form, STD. 152. The department will adjust its property accounting records and retain the Property Survey Report as documentation.

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

When property is disposed of or transferred, campus procedures require notification to the property clerk. A "missing equipment" report must then be completed and signed by the dean or department head and submitted to a property control clerk who prepares a survey report and notifies the campus police for follow-up.

The university controller stated that departments do not always notify the property clerk when inventory items are transferred. Subsequent to our review, missing reports were filed for the four missing inventory items.

Insufficient controls of cyclical physical inventories, reconciliations with property records, and a lack of supervisory review increase exposure to loss or misuse of fixed assets.

Recommendation 11

We recommend that:

- a. the campus strengthen procedures to ensure that the property clerk is promptly notified when property is removed from service, lost/stolen, or transferred to a different campus location;
- b. property survey reports be processed immediately upon recognition that property has been lost, stolen, or destroyed; and
- c. the campus complete adequate reconciliations between property records and the general ledger.

Campus Response

We partially concur with the auditor's recommendation. With regards to items a. and b., the property control clerk must rely on campus departments (or annual physical inventories) to report property removed from service, lost/stolen, or transferred. Current procedures inform the campus annually of the requirement to notify the property clerk of these occurrences. When notified (or discovered during inventory) of lost/stolen or destroyed property, the property control clerk immediately notifies Public Safety and prepares a property survey report reflecting the event. Procedures will be modified by June 2000 to provide for periodic reminders to campus departments of their reporting responsibilities.

With regards to item c., a formal reconciliation between the property records and the general ledger will be developed by July 2000.

PEOPLESOFT IMPLEMENTATION

BANK RECONCILIATIONS

Bank reconciliations were not prepared or reviewed timely.

The campus had not performed bank reconciliations since June 1999 as PeopleSoft's standard bank reconciliation reports were not functioning properly. The campus, however, did not use PeopleSoft's ad-hoc reporting capabilities to generate information needed to perform reconciliations. Bank reconciliations were being prepared and reviewed on a timely basis prior to the PeopleSoft implementation.

SAM §8060 states that all bank and centralized State Treasury System (CTS) accounts will be reconciled promptly at the end of each month.

The university controller indicated that the delay in preparing bank reconciliations were due to the PeopleSoft implementation.

Untimely bank reconciliations and reviews increase the risk that errors and irregularities will not be detected.

Recommendation 12

We recommend that the campus prepare and review monthly bank reconciliations.

Campus Response

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from the Financial Reporting System (FRS) to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, bank reconciliations were being prepared and reviewed in a timely manner. A PeopleSoft bank reconciliation program has been developed and we are proceeding to complete the monthly bank reconciliations. Bank reconciliations will be current by July 2000.

OTHER RECONCILIATIONS

Revolving fund, state controller's office (SCO) expenditure, and investment reconciliations were not performed timely.

The revolving fund, state controller's office expenditure, and investment reconciliations have not been accomplished since June 1999. Basic reports necessary to perform these reconciliations have not been generated from the PeopleSoft system. These reconciliations were completed in a timely basis prior to the PeopleSoft implementation.

SAM §7900 requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7900 requires monthly reconciliations of agency accounts to records other than those prepared by the agency.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The university controller stated that, due to the implementation of PeopleSoft, the reconciliations were not performed in a timely manner. The campus has recently developed a report to address the reconciliation of state controller's office expenditures and is in the process of completing monthly SCO expenditure reconciliations. Also, the campus is working on establishing revolving fund reconciliations.

Failure to complete reconciliations in a timely manner increases the risk that errors and irregularities will not be promptly detected.

Recommendation 13

We recommend that the campus complete the revolving fund, SCO expenditure, and investment reconciliations timely.

Campus Response

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from FRS to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, revolving fund reconciliations were being prepared and reviewed monthly. We are in the process of developing a PeopleSoft program to replace the reconciliation used in the FRS system. Revolving fund reconciliations will be current by July 2000.

Prior to July 1999, the SCO expenditure reconciliation (SAM99) was being completed in a timely manner. A SAM99 report has been developed in PeopleSoft and we are in the process of completing the monthly reconciliations. The SAM99 reconciliation will be current by July 2000.

Campus investments consist entirely of funds maintained with the State Money Investment Fund (SMIF) or the recently authorized Metropolitan West Investment (MetWest) pool accounts. The SMIF investment balances are reconciled monthly as part of the SAM99 reconciliation process. The investment reconciliation will be current by July 2000.

REPORTS

The open purchase order report and accounts receivable aging report were not currently maintained.

The campus has not been able to generate open purchase order report and non-student accounts receivable aging schedules since June 1999 as PeopleSoft's standard reports for such were not functioning properly. Prior to PeopleSoft implementation, these reports were being generated and reviewed on a timely basis.

SAM §8422.20 requires follow-up on outstanding purchase documents/contracts to determine whether all goods and services ordered are actually received.

SAM § 8776.6 and 8776.7 establish procedures to follow when attempting to collect past due accounts receivable. These procedures are based on the amount of the receivable as well as how long it has been

outstanding. A current aging schedule should be prepared to identify existing accounts receivable and the length of time they have been outstanding.

The University Controller indicated that, due to the recent conversion of the financial application to PeopleSoft the various reports had not been available since June 1999. The campus is currently working on finalizing these reports.

Untimely reviews of open purchase order files reduce the opportunity for resolution of delivery delays and lost orders and not maintaining current aging schedules reduces overall management effectiveness of collection procedures.

Recommendation 14

We recommend that the campus ensure that follow-up on outstanding purchase orders is performed timely and that the campus prepare monthly accounts receivable aging schedules.

Campus Response

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from FRS to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, outstanding purchase orders were being reviewed on a timely basis. An Open Commitment Report has now been developed in PeopleSoft and outstanding purchase orders are being reviewed, and follow-up is occurring, in a timely manner.

Prior to July 1999, accounts receivable aging schedules were prepared and balanced to the general ledger prior to each month being closed. A PeopleSoft aging report has now been developed and we are current in our monthly reconciliations to the general ledger.

CLEARING ACCOUNTS

Uncleared collections and travel advances were not researched and cleared in a timely manner.

The uncleared collections account had not been researched and actions to clear items had not occurred since June 30, 1999. Also, as of November 3, 1999, thirteen travel advances totaling \$14,233 were more than ninety days old and ten travel advances totaling \$12,413 were more than sixty days old. The uncleared collections account and the travel advances were being cleared in a timely manner prior to the PeopleSoft implementation.

SAM §10452 states, 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.

SAM §8116 requires prompt clearance of travel advances through the filing of claims or employee reimbursement or if deemed uncollectable, that local write-off and relief from accountability action be taken.

The university controller attributed the delay to the campus' conversion of its general ledger application to PeopleSoft on July 1, 1999.

Uncleared collections reduce working capital and increase the potential for loss of interest earnings, and when outstanding advances are not cleared in a timely manner, revolving fund monies are not available for other uses and there is an increased risk of loss of revenues as a result of uncollectable accounts.

Recommendation 15

We recommend that the campus ensure that:

- a. uncleared collections are researched and resolved in a timely manner, and
- b. travel advances are cleared in a timely manner.

Campus Response

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from FRS to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, uncleared collections were being cleared in a timely manner. A PeopleSoft report has now been developed to generate the necessary information and we are in the process of researching and clearing outstanding items. This will be current by October 2000.

Prior to July 1999, travel advances were being cleared in a timely manner. Travel advances are now current in the PeopleSoft environment.

USER PROFILE CONTROLS

User profile controls for the PeopleSoft system were inadequate.

We found that:

- all purchasing managers have access to receiving screens;
- accounts payable managers have the ability to originate purchase orders; and
- all buyers can update the vendor data file.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. It requires, in part, that access to State agency assets be limited to authorized personnel who require these assets in the performance of their assigned duties.

The director of purchasing and the information system manager stated that a variety of screens was made available to users for training purposes. We found that the campus had recently implemented PeopleSoft for its purchasing, accounts payable, and receiving functions.

Not assuring proper access to the PeopleSoft system screens increases the risk of unauthorized access and inappropriate acts.

Recommendation 16

We recommend that the campus review its current user profiles to ensure the appropriate level of user access.

Campus Response

We concur with the auditor's recommendation. During the initial stages of the PeopleSoft implementation it was necessary to provide broad system update capability to key personnel and/or managers to perform necessary system tests and training. At the time the Campus moved to the production database this update capability was never deleted for these individuals. User profile controls have now been revised in the production database as follows:

- procurement managers no longer have update capability to receiving screens,
- the accounts payable manager and the travel coordinator no longer have update capability to purchasing screens, and
- buyers no longer have update capability to the vendor data file.

OFFSITE BACKUP

Backup data for the PeopleSoft system was not stored offsite.

Backup media should be sent periodically to a site that is not located within the same vicinity and subject to a concurrent disaster.

The director of information technology services found that the software for sending PeopleSoft files to the offsite tapes was not working.

Not storing backup data offsite increases the risk that data will be lost in the event of a disaster.

Recommendation 17

We recommend that the campus research the costs associated with sending its backup information to a storage facility outside the local area or sending the information via electronic transfer. Either alternative should be implemented accordingly.

Campus response

We concur with the auditor's recommendation. Permanent arrangements have been completed to have PeopleSoft backup tapes stored in the Information Technology Services offsite storage bin. Full implementation of this process will be completed by July 2000.

DATA SECURITY CONFIGURATION

The setup configuration for passwords in the PeopleSoft system is inadequate.

We noted that password configurations had not been evaluated in light of new technology.

Inadequate system security software could allow unauthorized users to guess passwords, thereby giving them access to campus systems and confidential data. Additionally, SAM §20003 requires, in part, that there be a plan that limits access to State agency assets to authorized personnel who require these assets in the performance of their assigned duties.

The Business Information Technology Services (BITS) is aware of the security issues. The Collaborative Management Systems (CMS) project is responsible for PeopleSoft configurations and is researching the feasibility of a third party vendor solution to address access security issues.

Inadequate configuration setup increases the risk of unauthorized access.

Recommendation 18

We recommend that the campus analyze their access security needs and submit the proposal to the CMS project.

Campus Response

We concur with the auditor's recommendation. This will be completed by July 2000.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>		<u>Title</u>
John	Welty	President
Josephine	Almeida	Manager, Student Financial Services
Gary	Beddingfield	Parking Administrator
John	Briar	Director, BITS
Jim	Brummel	Pharmacist
Cheryl	Burger	General Accounting Technician
Paula	Carleton	Health Records Technician, Student Health Center
Tamara	Cochran	Accounting Technician
Joan	Creighton	Human Resources Specialist
Vicki	DeLeon	Administrative Assistant, Student Health & Psychological Services
Don	Farris	Warehouse and Property Manager
Gail	Freeman	Administrative Assistant, College of Arts & Humanities
Marcy	Gatzman	Administrative Assistant, Parking
Beverly	Gideon	Clerical Assistant, Student Financial Services
Jose	Gomez	General Accounting Clerk
Dutch	Green	Director, Procurement and Support Services
Natalie	Hakker	Accounting Technician
Larry	Haugen	Associate Director, Student Health & Psychological Services
John	Hernandez	Property Clerk
Jeff	Hill	Library Mail Clerk
Sue	Holden	Clerical Assistant
Judy	Hulst	Administrative Assistant, College Of Arts & Humanities
Joanne	Johnson	Payroll Services Technician
Ruth	Kallenberg	Head, Library - Acquisitions
Steve	Katz	Controller
Ayesha	Khan	Accounting Technician
Dennis	Livezey	Manager, General Accounting
Janice	Loo	Manager, General Accounting
Pat	Madrigal	Administrative Assistant, Admissions, Records, Evaluations
Fred	Martinez	Administrative Assistant, Parking
Margaret	Martinez	Accounts Payable Supervisor
Rose	Mercado	Accounting Technician
Jim	Michael	Operations Manager
Carla	Miller	Assistant To The Dean, College of Arts & Humanities
Monty	Montanye	Buyer
Jim	Morris	Associate Vice President, Information Technology Services
Cynthia	Oliphant	Accounting Technician
Margie	Phillips	Supervising Buyer
Jeannine	Raymond	Director, Employee Relations
Cynthia	Renteria	Accounting Technician, Library
Chris	Robinson	Internal Auditor, Cal State Fresno

Christine	Rodriguez	Administrative Assistant, Accounting Services
Monica	Shackelton	Accounting Technician
Nita	Sprecher	Accounting Technician
Shirley	Staton	Accounting Technician
Alberta	Trytten	Information Systems Manager
Ken	Ulm	Lead Cashier
Kathy	Urata	Operations Analyst
Susan	Vaquilar	Payroll Manager
Bob	Vega	Director, Accounting Services
Linda	Vivian	Accounting Technician
Juanita	Welch	Data Entry Technician
Pat	Work	Manager, Accounts Payable & Non-Student Accounts Receivable
Joyce	Yamanaka	Administrative Assistant

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.

MAY 24 2000

The California State
University



CALIFORNIA
STATE
UNIVERSITY,
FRESNO

May 19, 2000

Memorandum

To: Larry Mandel
University Auditor
The California State University

From: John D. Welty
President

A handwritten signature in cursive script, appearing to read "John D. Welty", written over the printed name.

Subject: **Campus Response to Audit Report Number 99-05,
FISMA at California State University, Fresno**

My staff and I have reviewed the findings of the above captioned report. Attached is the Campus Response addressing specific recommendations contained in the audit report. Documentation supporting corrective action taken to date will be forwarded under separate cover.

Please feel free to contact me if you should have any questions.

JDW:cr
Attachment

C: Benjamin F. Quillian
Steven Katz
Chris Robinson

**Office of
the President**

Thomas Administration
Building, 103
5241 North Maple Ave. M/S TA48
Fresno, CA 93740-8027

559. 278-2324
Fax 559. 278-4715

CALIFORNIA STATE UNIVERSITY, FRESNO
RESPONSE TO CSU AUDIT NUMBER 99-05
FISMA
APRIL 19, 2000

Auditor's Opinion

We disagree with the auditor's opinion that California State University, Fresno (the Campus) did not maintain adequate internal controls. As stated in the Opinion section of the report, the Campus was involved in a financial information system implementation and was transitioning from the Financial Reporting System (FRS) to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft Financial System for a little over two months.

In many cases, the deficiencies mentioned in the report are directly or indirectly related to specific PeopleSoft reports/processes that were in development at the time of the audit. Due to the lack of availability of resources for implementation, key management and technical personnel have been coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources left the campus **temporarily** unable to respond timely to some aspects of internal control that were present prior to the PeopleSoft implementation. Even during this temporary period, we strongly believe that the Campus maintained **reasonable assurances** that assets were being safeguarded, that transactions were being properly recorded, and that financial operations were being conducted in accordance with State policies and procedures.

Although the auditor's Opinion mentions the PeopleSoft implementation, we believe that the impact of the above facts was not fully taken into consideration in developing the Opinion.

Recommendation #1 - Satellite Cashiering

We recommend that the campus, at a minimum, take the following actions with respect to all satellite cashiering operations:

- a. ensure that all cash collections are deposited timely;
- b. establish procedures to ensure that cash collections are adequately safeguarded;
- c. ensure that checks are restrictively endorsed by the end of the day;
- d. establish appropriate reconciliation procedures to ensure proper accountability of cash collections;
- e. establish procedures to ensure that pre-numbered receipts are issued;
- f. establish procedures to ensure that cash overages and shortages are reported; and
- g. establish procedures to segregate duties relating to the public safety citation function.

Campus Response:

We concur with the auditor's recommendation. Accounting services will prepare specific procedures for operating satellite cashiering functions. These procedures will be provided to all satellite cashiering areas and training sessions will be conducted. The procedures will include periodic follow-up reviews by the accounting office to ensure compliance. The procedures will be implemented by October 2000.

Recommendation #2 - Application Fee Reconciliation

We recommend that the campus include the names of the preparer and reviewer, including dates prepared and reviewed, on the fee reconciliation.

Campus Response:

We agree that signatures and dates of the individuals preparing and reviewing the fee reconciliation should be included on the reconciliation document. However, we disagree with the finding that "Application fee reconciliations were inadequate." The fee reconciliation is being prepared, analyzed, reviewed, and appropriate follow-up is occurring. The individuals completing these tasks neglected to document their actions. This has been added to our procedures and all future reconciliations will be signed and dated.

Recommendation #3 - Accounts Receivable

We recommend that the campus establish and implement procedures to ensure that account collection efforts are timely and documented.

Campus Response:

We disagree in part with the wording of the recommendation. The Campus has written procedures on accounts receivable management (including timely collection efforts) and these procedures were being followed. However, the procedures did not address the need for adequate documentation of collection efforts. The campus is currently working on this matter, and revised procedures will be implemented in June 2000.

Recommendation #4 - Purchase Approvals

We recommend that the campus strengthen procedures to ensure:

- a. items are not purchased prior to approval of the requisition by the purchasing department;
- b. supporting documents are retained along with the purchase order;
- c. credit card purchases are made only by authorized cardholders; and
- d. resolution of the issue of cardholders rests with the final approval authority.

Campus Response:

We concur with recommended items a. and b. With regards to item a., the accounting and procurement offices issued joint instructions to the campus forbidding the use of Confirming Purchase Orders in February 2000, and these instructions are being enforced. With regards to item b., the finding was isolated to the library, which has been instructed to change its retention procedures so that supporting documentation is retained. This will be completed by the end of May 2000.

We disagree with item c. Campus policy already forbids procurement card users to share their credit cards with anyone. In those instances where this practice occurs the cardholder is notified of the policy in writing. If the practice occurs a second time the card is cancelled. Accounts payable performs a "post-audit" review to determine when these situations occur and notifies the procurement office of the violations.

We disagree in principle with item d. Our argument against this finding is based on the fact that if the procurement cardholder has budget authority, such as a department head or vice president, no one else should have to approve their procurement card purchases. These individuals already have authority to purchase merchandise through the requisition/purchase order process without supervisory review. The rationale for the establishment of the procurement card was to eliminate the review of low dollar value acquisitions. Requiring this additional level of approval would discourage and impede the use of procurement cards by these individuals and would tend to return us to a less efficient process. The Brandon Report, a system-wide consultant report on procurement activities, stated that customers may be reluctant to use procurement cards because of the many controls, limitations, and administrative requirements placed on the use of the card.

However, having stated the above, we are reluctantly changing our procurement card procedures to include supervisory approval for all cardholders. Revisions to the procedures will be implemented by June 2000.

Recommendation #5 - Purchasing Agents

We recommend that the purchasing level for buyers be reduced to writing.

Campus Response:

We concur with the auditor's recommendation. Purchasing limits have now been reduced to writing for all buyers.

Recommendation #6 - Revolving Fund Change Funds

We recommend that the accounting office approve the parking office change fund and subject this fund to independent cash counts.

Campus Response:

We concur with the auditor's recommendation. Accounting Services has approved the parking office change fund of \$260. This change fund is now included in the listing of campus change funds, and will be subject to periodic independent cash counts.

Recommendation #7 - Revolving Fund Policies and Procedures

We recommend that revolving fund policies and procedures be documented and communicated to applicable staff.

Campus Response:

We concur with the auditor's recommendation. Accounting Services will develop written revolving fund policies and procedures and will communicate them to appropriate staff. This will be accomplished by October 2000.

Recommendation #8 - Credit Card Disbursements

We recommend that the campus reiterate to the department that original invoices are required to support all expenditures.

Campus Response:

We concur with the auditor's recommendation. The department in question will be reminded of the requirement to submit original invoices. This will be completed by May 31, 2000.

Recommendation #9 - Payroll/Personnel

We recommend that the campus develop and implement procedures regarding the use of signature verification cards for all payroll transactions.

Campus Response:

We concur with the auditor's recommendation. The payroll office has been provided with a list of employees authorized to approve employee transaction forms (ETFs). The payroll office is now performing the verification of authorized signatures. Written procedures for processing ETFs has been updated to include this verification.

Recommendation #10 - Auctioned Property

We recommend that the campus establish procedures to oversee the auctioned inventory including:

- a. separating duties relating to preparation of the auction report, receipt of auction proceeds, and fixed asset ledger maintenance; and
- b. timely oversight of auction events.

Campus Response:

We concur with the auditor's recommendation. Procedures related to auctioned inventory will be modified to include the separation of duties. The Director of Procurement and Support Services will review all auction report documentation immediately after every auction. This change will be implemented by July 2000, prior to the next scheduled auction.

Recommendation #11 - Fixed Assets - Physical Inventory

We recommend that:

- a. the campus strengthen procedures to ensure that the property clerk is promptly notified when property is removed from service, lost/stolen, or transferred to a different campus location;
- b. property survey reports be processed immediately upon recognition that property has been lost, stolen, or destroyed; and
- c. the campus complete adequate reconciliations between property records and the general ledger.

Campus Response:

We partially concur with the auditor's recommendation. With regards to items a. and b., the property control clerk must rely on campus departments (or annual physical inventories) to report property removed from service, lost/stolen, or transferred. Current procedures inform the campus annually of the requirement to notify the property clerk of these occurrences. When notified (or discovered during inventory) of lost/stolen or destroyed property, the property control clerk immediately notifies Public Safety and prepares a property survey report reflecting the event. Procedures will be modified by June 2000 to provide for periodic reminders to campus departments of their reporting responsibilities.

With regards to item c., a formal reconciliation between the property records and the general ledger will be developed by July 2000.

Recommendation #12 - PeopleSoft Implementation – Bank Reconciliations

We recommend that the campus prepare and review monthly bank reconciliations.

Campus Response:

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from the Financial Reporting System (FRS) to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, bank reconciliations were being prepared and reviewed in a timely manner. A PeopleSoft bank reconciliation program has been developed and we are proceeding to complete the monthly bank reconciliations. Bank reconciliations will be current by July 2000.

Recommendation #13 - PeopleSoft Implementation – Other Reconciliations

We recommend that the campus complete the revolving fund, SCO expenditure, and investment reconciliations timely.

Campus Response:

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from FRS to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, revolving fund reconciliations were being prepared and reviewed monthly. We are in the process of developing a PeopleSoft program to replace the reconciliation used in the FRS system. Revolving fund reconciliations will be current by July 2000.

Prior to July 1999, the SCO expenditure reconciliation (SAM99) was being completed in a timely manner. A SAM99 report has been developed in PeopleSoft and we are in the process of completing the monthly reconciliations. The SAM99 reconciliation will be current by July 2000.

Campus investments consist entirely of funds maintained with the State Money Investment Fund (SMIF) or the recently authorized Metropolitan West Investment (MetWest) pool accounts. The SMIF investment balances are reconciled monthly as part of the SAM99 reconciliation process. The investment reconciliation will be current by July 2000.

Recommendation #14 - PeopleSoft Implementation – Reports

We recommend that the campus ensure that follow-up on outstanding purchase orders is performed timely and that the campus prepare monthly accounts receivable aging schedules.

Campus Response:

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from FRS to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, outstanding purchase orders were being reviewed on a timely basis. An Open Commitment Report has now been developed in PeopleSoft and outstanding purchase orders are being reviewed, and follow-up is occurring, in a timely manner.

Prior to July 1999, accounts receivable aging schedules were prepared and balanced to the general ledger prior to each month being closed. A PeopleSoft aging report has now been developed and we are current in our monthly reconciliations to the general ledger.

Recommendation #15 - PeopleSoft Implementation – Clearing Accounts

We recommend that the campus ensure that:

- a. uncleared collections are researched and resolved in a timely manner, and
- b. travel advances are cleared in a timely manner.

Campus Response:

We concur with the auditor's recommendation. However, we feel that it is necessary to point out that the Campus was involved in a financial information system implementation and was transitioning from FRS to the PeopleSoft Financial System. At the time of the audit the Campus had been operating out of the new PeopleSoft system for a little over two months. Due to the lack

of availability of resources for implementation, key management and technical personnel were coupled with production processing responsibilities of FRS as well as the implementation of the new system. This stretching of resources made the campus temporarily unable to respond timely to some aspects of internal controls that were present in our FRS system.

Prior to July 1999, uncleared collections were being cleared in a timely manner. A PeopleSoft report has now been developed to generate the necessary information and we are in the process of researching and clearing outstanding items. This will be current by October 2000.

Prior to July 1999, travel advances were being cleared in a timely manner. Travel advances are now current in the PeopleSoft environment.

Recommendation #16 - PeopleSoft Implementation – User Profile Controls

We recommend that the campus review its current user profiles to ensure the appropriate level of user access.

Campus Response:

We concur with the auditor's recommendation. During the initial stages of the PeopleSoft implementation it was necessary to provide broad system update capability to key personnel and/or managers to perform necessary system tests and training. At the time the Campus moved to the production database this update capability was never deleted for these individuals. User profile controls have now been revised in the production database as follows:

- procurement managers no longer have update capability to receiving screens,
- the accounts payable manager and the travel coordinator no longer have update capability to purchasing screens, and
- buyers no longer have update capability to the vendor data file.

Recommendation #17 - PeopleSoft Implementation – Offsite Backup

We recommend that the campus research the costs associated with sending its backup information to a storage facility outside the local area or sending the information via electronic transfer. Either alternative should be implemented accordingly.

Campus Response:

We concur with the auditor's recommendation. Permanent arrangements have been completed to have PeopleSoft backup tapes stored in the Information Technology Services offsite storage bin. Full implementation of this process will be completed by July 2000.

Recommendation #18 - PeopleSoft Implementation – Data Security Configuration

We recommend that the campus analyze their access security needs and submit the proposal to the CMS project.

Campus Response:

We concur with the auditor's recommendation. This will be completed by July 2000.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

June 22, 2000

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed 

HUMBOLDT

SUBJECT: Draft Final Report Number 99-05 on FISMA,
California State University, Fresno

LONG BEACH

LOS ANGELES

In response to your memorandum of June 21, 2000, I accept the response as submitted with the draft final report on FISMA, California State University, Fresno.

MARITIME ACADEMY

MONTEREY BAY

CBR/cw

NORTHRIDGE

POMONA

Enclosure

SACRAMENTO

cc: Dr. John D. Welty, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS