

FISMA

SAN FRANCISCO STATE UNIVERSITY

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CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology.....	1
Background	3
Opinion.....	3
Executive Summary.....	4

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts.....	7
Accounts Receivable	9
Revolving Fund.....	10
Cash Disbursements	11
Payroll/Personnel	12
Fixed Assets.....	14
Capitalized Assets	14
Physical Inventories.....	15
Fiscal IT.....	15
Password Security	15
Data Center Security	16
Disaster Recovery	17
Application Change Control	18
Trust Funds.....	18
Trust Agreement Instructions	18
Signature Authorizations	19

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

CSU	California State University
SFSU	San Francisco State University
FISMA	Financial Integrity and State Manager's Accountability Act
FRS	Financial Reporting System
FY	Fiscal Year
IT	Information Technology
SAM	State Administrative Manual
SCO	State Controller's Office
SDSU	San Diego State University
SIS	Student Information Systems
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

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 June 1998 to February 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 over the establishment of billing for and payment of receivables;
- ▶ approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;
- ▶ limitations on the size and types of revolving fund disbursements;
- ▶ use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;
- ▶ authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies;
- ▶ posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;
- ▶ access restrictions to automated accounting systems and proper documentation of the systems;
- ▶ procedures for initiating, evaluating, and accounting for investments; and
- ▶ 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 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 San Francisco State University from February 22, 1999 through April 9, 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 certain conditions which, in our opinion, if not corrected could result in errors and irregularities. Specifically, the campus does not maintain adequate internal controls over the following areas: fixed assets and fiscal IT. Other areas needing improvement are found in the Executive Summary.

EXECUTIVE SUMMARY

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

Cash control weaknesses were found at four of five satellite cashiering locations visited. Adequately controlling and accounting for cash receipts and deposits decreases exposure to misappropriation of funds.

ACCOUNTS RECEIVABLE [9]

The campus was not following up and collecting payroll receivables in a timely manner. This is a repeat finding from our prior FISMA audit. Ensuring timely follow-up and collection of payroll overpayments limits the potential for loss of revenue from uncollectable accounts and increases working capital.

REVOLVING FUND [10]

Travel advances were not always cleared timely. This is a repeat finding from our prior FISMA audit. Clearing outstanding travel advances in a timely manner makes resources available for other campus needs.

CASH DISBURSEMENTS [11]

Long outstanding checks and undeliverable warrants were not remitted to the State Special Deposit Fund in a timely manner. The timely cancellation or remittance of long outstanding checks and undeliverable warrants prevents reversions to the general fund and decreases the amount of time and effort required to review these items during the reconciliation process.

PAYROLL/PERSONNEL [12]

The campus employee separation process was not adequate. Strengthening controls to ensure that appropriate separation clearance procedures are followed decreases the risk of unauthorized uses of state resources and any resulting loss of state funds.

FIXED ASSETS [14]

CAPITALIZED ASSETS [14]

Acquisitions of property valued at less than \$5,000 were sometimes erroneously misclassified as capital assets. Properly classifying and capitalizing assets will result in a more accurate property inventory record and general ledger fixed assets account.

PHYSICAL INVENTORIES [15]

Physical inventories of campus assets and reconciliations to accounting records were not timely. Ensuring timely inventories and reconciliations with property records decreases exposure to risk of loss or misuse of fixed assets.

FISCAL IT [15]

PASSWORD SECURITY [15]

Procedures had not been established to revoke user access after a specified number of failed password attempts to access computer systems. Revoking user access after three or more failed password attempts decreases the risk of unauthorized access to CSU systems and confidential information.

DATA CENTER SECURITY [16]

Access controls to the data center were outdated. Access control can be improved by implementing cardkey or keypad systems that provide an audit trail of personnel who enter and exit the data center.

DISASTER RECOVERY [17]

We found that the campus did not have a back-up generator. In addition, a reciprocal agreement with another CSU campus to provide services in the event of a local disaster will become obsolete in the near future. Providing a back up generator and ensuring an uninterrupted continuance of a reciprocal agreement will strengthen the availability of operational data systems.

APPLICATION CHANGE CONTROL [18]

Programmers are currently permitted to move applications from the testing environment to the production environment without any compensating controls. Establishing compensating controls related to separation of duties decreases the risk of unauthorized program changes or errors that impact other systems.

TRUST FUNDS [18]

TRUST AGREEMENT INSTRUCTIONS [18]

Trust agreements in the accounting office were not always properly completed. Ensuring that all trust funds are fully documented decreases the risk of inappropriate expenditures.

SIGNATURE AUTHORIZATIONS [19]

Trust account signature authorizations were not always current. This is a repeat finding from our prior FISMA audit. Updating trust accounts to reflect changes in expenditure approval authority decreases the risk of loss or misuse of trust funds.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Cash control weaknesses were found at four of five satellite cashiering locations visited.

Three satellite cashiering areas, the Rapid Copy Center, Student Health Center, and Residential Administrative Services, were selected for review due to the scope of their operations. In addition, we visited Parking and Public Safety due to a prior audit finding.

Delays in Deposits

Collections in five prepaid copy card dispensing machines located in the library and various computer labs were collected monthly by the rapid copy center staff.

SAM §8032.1 states that accumulated receipts of any amount will not remain undeposited for more than ten working days.

The rapid copy manager indicated that they were not aware of the SAM requirement for deposits.

Access to Safes/Vaults

The rapid copy center and public safety, which secures nightly collections from parking meters/machines in the office safe, did not change the safe combination when staff changes or turnover occurred. Additionally, public safety did not maintain a written record of employees with access to the safekeeping facilities or a record of when the combination was last changed.

SAM §8024 requires that the combination be changed when an employee having knowledge of the combination leaves the employ of the agency, a record be kept showing the names of individuals knowing the present combination, and the date the combination was last changed.

The rapid copy center manager and the public safety captain stated that they were unaware of the requirement.

Control of Cash Receipts

The health center and pharmacy did not adequately control access to its cash register. Three persons at each location have access to the register in any given day.

SAM § 8021 requires 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.

According to the business manager, student health services, campus personnel were aware of the requirement to use transfer receipts but felt that it impeded the delivery of services to their customers.

Unrestricted Access

Controls over cashiering operations at the residential administrative services were deficient. Specifically, there was unrestricted access, via an open door, to the cash processing area.

SAM §20003 states, in part, that there should be an established system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director, residential administrative services, stated that the door was left open to prevent a “closed-off feeling,” by the employees. This concern was immediately addressed, as the door was closed and locked. Subsequently, as a result of a remodeling project, a locking dutch door was installed to maintain security.

Inadequate control and accounting for cash receipts and deposits increases exposure to misappropriation of funds.

Recommendation 1

We recommend that the campus take the following actions with respect to satellite cashiering operations:

- a. implement procedures to ensure that the combination is changed when an employee having knowledge of the combination terminates employment;
- b. keep a record showing the names of individuals knowing the present combination and the date the combination was last changed;
- c. strengthen procedures to ensure proper accountability over student health center and pharmacy cash receipts; and,
- d. ensure timely collection and deposits of receipts at the Rapid Copy Center.

Campus Response

We concur and have already taken action to implement this recommendation. The University Bursar has issued a notice to the satellite cashiering operations to comply with SAM requirements:

- a. to change the vault/safe combination annually or when an employee having knowledge of the combination terminates employment, whichever occurs earlier;
- b. to keep an historical record of the names of individuals knowing the combination, and the date the combination was last changed;

- c. in order to localize accountability for receipts, authorized cashiers will be provided with individual user ids and passwords and their own cash boxes;
- d. to collect and deposit all receipts, including from dispensing machines handled by the Rapid Copy Center, within the ten (10) working days specified in SAM 8032.1.

The Bursar will meet with all of the supervisors from each of the satellite cashiering sites during the first week of October to review and discuss cash control as specified in SAM. In addition, a personal visit will be made to each cashiering site prior to the October meeting.

ACCOUNTS RECEIVABLE

The campus was not following up and collecting payroll receivables in a timely manner. This is a repeat finding from our prior FISMA audit.

Payroll receivables of less than one year old totaled approximately \$60,000, consisting of \$22,000 less than six months old and \$38,000 between six months to a year old. Payroll receivables over one year old totaled approximately \$85,000, which consisted of \$27,071 from one to two years old, \$34,162 from two to five years old, and \$24,065 over five years old, some of which dated back to the early 1980's.

SAM 8776.7 establishes specific procedures for the collection of amounts due from state employees.

In June 1998, the campus payroll coordinator requested a discharge from accountability from the Campus Controller's Office for approximately \$9,000 in old payroll receivables. However, that request was returned for additional supporting information. The campus payroll coordinator further stated they are continuing with their collection and write-off efforts.

Untimely follow-up and collection of payroll receivables increases the risk of loss of revenue from uncollectable accounts and decreases the amount of working capital available to the campus.

Recommendation 2

We recommend that the campus strengthen its efforts to ensure that payroll receivables are documented and collected timely.

Campus Response

We concur. The Human Resources department has initiated both immediate action and a long-term plan for reducing and managing payroll account receivables on a continuing basis. We have established office procedures for collection of amounts due from state employees in accordance with SAM §8776.7, and have begun to eliminate receivables beginning with the oldest dates, approximately \$33,000 to date. We have begun evaluation of payment history to determine which amounts can be cleared through funds transfers and have initiated collection procedures for overpayments. Additionally, we are developing a new "receivables" report, which will better track the status of receivables, document collection efforts, and facilitate reconciliation with the Accounting Office.

Note: The CSU should consider working with the State Controller's Office to simplify payroll procedures for handling both non-industrial disability insurance and worker's compensation payments - possibly through more extensive use of funds transfers. We have one example of 18 account receivables arising from one worker's compensation claim for one employee.

REVOLVING FUND

Travel advances were not always cleared timely. This is a repeat finding from our prior FISMA audit.

Travel advance records showed the following amounts outstanding over 30 days:

Outstanding Travel Advances
January 31, 1999

31-60 days	\$12,159
61-90 days	22,700
Over 90 days	<u>37,463</u>
Total	\$ 72,322

SAM §8116.2 requires the submittal of a properly prepared travel expense claim (TEC) to substantiate travel expenses as soon as possible after the trip(s) or at least once a month.

SAM § 8116.3 states that if an employee does not submit a TEC to substantiate the travel expenses within 30 calendar days of the periodic statement date, the total travel advance amount must be deducted from the next regular payroll warrant(s). It further states that if an employee submits a TEC within 30 calendar days of the periodic statement date, but does not return any excess travel advance amount within the same 30 calendar days, the excess travel advance amount must be deducted from the next regular payroll warrant(s).

The travel desk coordinator stated that turnovers and a vacancy in the department contributed to the lack of follow-up on travel advances.

When travel advances are not cleared timely, revolving fund monies are not available for other campus needs.

Recommendation 3

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

Campus Response

We concur. Periodic statements are being sent monthly to travelers who do not submit a claim within 30 days of the trip; referral for payroll deduction is being made timely to the Payroll Office. A standard form has been developed and implemented to refer delinquent travel claims/advances to the Payroll Office for payroll deduction, with a copy going to both the employee and the department approver.

In addition, wording in the travel procedures and in standard correspondence used by the Travel Desk Coordinator has been strengthened. Periodic bulletins will be sent to the campus community, reminding travelers and approvers of the importance of submitting their travel claims timely and of the consequences for failing to do so.

CASH DISBURSEMENTS

Long outstanding checks and undeliverable warrants were not remitted to the State Special Deposit Fund in a timely manner.

Campus records indicated that:

- outstanding checks over 2 years totaled \$196,878, some of which dated back to July 1992; and
- undelivered warrants over 90 days totaled \$10,869, some of which dated back to October 1998.

SAM §8042 states that, whenever general cash and revolving fund checks are outstanding over two years, they will be cancelled and the amount of such checks will be remitted to the Special Deposit Fund as unclaimed moneys.

SAM 8580.5 states that salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll office. Warrants not delivered within 90 calendar days of receipt must be returned to the State Controller's Office for monthly deposit in the special deposit fund.

The accountant, fiscal affairs, indicated that the campus was following a 4 year policy for returning outstanding checks and a 120 day policy for undelivered warrants as directed by the State Controller's Office (SCO). The campus could not provide a written copy of the SCO policy that authorized this deviation from SAM.

Not canceling or remitting long outstanding checks timely to the Special Deposit Fund could result in reversion to the general fund and require additional effort to review outstanding checks during the reconciliation process.

Recommendation 4

We recommend that the campus:

- a. strengthen procedures to ensure that long outstanding checks and undeliverable warrants are remitted to the Special Deposit Fund in a timely manner; and
- b. obtain and retain written approval from the SCO supporting their authorization to deviate from existing SAM policy.

Campus Response

We concur. The undelivered warrants over 90 days totaling \$10,869 were remitted to the State Controller's Office on April 19,1999. We will continue to comply with the provisions specified in SAM 8580.5.

The Accounting unit has had two student assistants canceling and remitting old outstanding checks, and procedures for the on-going cancellation and remittance of current outstanding checks have been revised and strengthened to comply with SAM 8042. Checks outstanding more than one year will be cancelled and remitted on a quarterly basis.

PAYROLL/PERSONNEL

The campus employee separation process was not adequate.

We found that clearance forms were:

- not designed to clearly document verification of clearances. Reporting departments only reported outstanding items such as keys, delinquencies, or salary advances and left the form blank if there was nothing to report. The forms also failed to provide for identification of the person authorizing clearance; i.e., department name, date, job title and signature. [The clearance form and procedures were corrected prior to the conclusion of the audit.];
- not required for certain interim employee separations; and
- not retained more than three months after the employee's separation date. Separation forms completed prior to the distribution of the final pay check are destroyed three months subsequent to the separation date.

SAM §8580.4 describes the need for adequate separation procedures, including preparation of a clearance form that includes clearance of revolving fund advances (travel and salary), return of keys, equipment, credit cards, etc.

SAM §1667 indicates that recommended retention periods are provided by Document Systems Management for personnel and payroll records that are common to most state agencies. The Document Systems Management general retention schedule for personnel and payroll records states, in item number 78, that separation records should be retained for five years from the effective date of separation.

The human resources payroll coordinator indicated that clearance forms were only completed when there were outstanding items or amounts due, and thus, clearance was not clearly documented. Prior to the conclusion of the audit, human resources staff did modify the forms to provide clear documentation of clearance and to identify who authorized clearance. Additionally, the coordinator indicated that separation procedures were not required for certain interim employees certified by their employing departments to be returning at the next academic year or who are employed through research and grants off campus. Lastly, the campus retained only an Excel spreadsheet indicating clearance in place of actual separation documents. The campus was unaware of the recommended retention policy.

Inadequate separation procedures increase the risk of loss of state funds and inappropriate use of state resources.

Recommendation 5

We recommend that the campus review and strengthen separation procedures to ensure that:

- a. clearance forms are properly completed for all employees; and
- b. all clearance forms are retained for five years from the effective date of separation.

Campus Response

We concur with the recommendation with the following comments.

As noted in the Draft Audit, the Human Resources Department clearance form and procedures were corrected prior to the conclusion of the audit. It should be noted that while SAM §1667 does indicate that recommended retention periods are provided by Document Systems Management for personnel and payroll records, the specific retention schedule is not a part of SAM and, to our knowledge, was never distributed to CSU campuses. We have since been provided with a copy of the retention schedule and records will be retained as recommended for 5 years from the effective date of separation.

With respect to lecturers who are certified by their employing departments to be returning the next academic year and who are technically separated prior to the end of the fiscal year to provide payoff of final settlement for budgetary purposes, we have instituted a bifurcated clearance process. At the time of final settlement payoff for the concluding academic year, clearance will be run on all monetary items; e.g., account receivables, travel advances, library fines, etc. Following the appointment process in the new academic year, the clearance procedures for those faculty separated and not re-appointed will be completed. This would allow the campus to function in the academic setting while assuring adequate separation procedures.

FIXED ASSETS

CAPITALIZED ASSETS

Acquisitions of property valued at less than \$5,000 were sometimes erroneously misclassified as capital assets.

We found cases where purchase orders containing multiple types of assets with dollar values of less than \$5,000 were being misclassified as capital assets. In such cases, staff recognized the total dollar value of the purchase order for capitalization rather than the unit cost. As a result, the wrong general ledger sub-codes were assigned to the individual assets.

SAM §8602 states that State property is capitalized for accounting purposes when certain conditions are met. Capitalization means to record the property in the accounting records as assets. Tangible property must meet the following three requirements in order to meet the capitalization requirements:

- have a normal useful life of at least one year;
- have a unit acquisition cost of at least \$5000 (e.g., four identical assets which cost \$3000 each, for a \$12,000 total, would not meet the requirement); and
- be used to conduct State business.

The director, property and inventory, indicated that until recently, the department did not have the appropriate resources to ensure compliance in all areas of property management. Furthermore, the purchasing buyers did not appropriately review the sub-codes used by employees when requisitioning assets.

Improper use of general ledger sub-codes to classify property acquisitions will result in the misstatement of value of the property inventory.

Recommendation 6

We recommend that the campus strengthen procedures to ensure that proper sub-codes are used when classifying property acquisitions.

Campus Response

We concur and have implemented this recommendation in Purchasing Policy and Procedure No. PPM-O-037, in effect since July 1, 1999, which require the Procurement Department to verify that the proper general ledger sub-code is being used to classify property acquisitions prior to issuing a purchase order.

PHYSICAL INVENTORIES

Physical inventories of campus assets and reconciliations to accounting records were not timely.

Thirteen of the 28 campus buildings have been inventoried, however, reconciliations to the accounting records have not been completed.

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

The director, property and inventory indicated that, until recently, the department did not have the appropriate resources to ensure compliance in all areas of property management. However, effective October 1998, the campus began a physical inventory and has completed 13 of its 28 buildings listed.

When inventories and reconciliations with property records are not conducted timely, there is an increased risk of loss or misuse of assets.

Recommendation 7

We recommend that the campus strengthen procedures to ensure that a complete physical inventory of all buildings occurs within a three year period and is reconciled to the accounting records in a timely manner.

Campus Response

We concur and have implemented an aggressive schedule to complete the physical inventory of all Campus buildings by 10-29-99 and the reconciliation to the accounting records by 12-15-99.

Future physical inventory of all buildings every three (3) years has been made a directive to the Manager of Property and shall be incorporated into the Strategic Plan for Procurement Services (Property, Mail Services, Shipping and Receiving).

FISCAL IT

PASSWORD SECURITY

Procedures had not been established to revoke user access after a specified number of failed password attempts to access computer systems.

To ensure that system access is limited to authorized users, the configuration for system access should be set up to automatically revoke access to any user who fails to successfully log on after three attempts.

The systems manager indicated that a control involving revocation of system access after several failed access attempts had not been previously needed.

Not revoking user access after three or more failed password attempts increases the risk of unauthorized access to CSU systems and confidential information.

Recommendation 8

We recommend that the campus strengthen access to secure systems by denying access to any users who have at least three failed attempts to log on to computer systems.

Campus Response

We concur and have implemented a new security feature for the IBM mainframe, effective August 8, 1999, to deny users access to computer systems after three consecutive unsuccessful login attempts.

DATA CENTER SECURITY

Access controls to the data center were outdated.

We found that passkeys were used to provide access to the data center. These passkeys can be copied at any hardware store.

The accepted industry practice is to require card keys or key pads to gain access to data centers.

According to the interim senior director, previous management had considered passkeys to be an acceptable control for access to the data center.

Not implementing cardkey or keypad entrance to the data center increases the risk of unauthorized entry and decreases the ability to determine who enters and exits the center.

Recommendation 9

We recommend that the campus employ either a cardkey or keypad system to provide physical access to the data center.

Campus Response

We concur. Computing Services and Physical Plant are currently planning the installation of such a system with a target date of November 1999.

DISASTER RECOVERY

We found that the campus did not have a back-up generator. In addition, a reciprocal agreement with another CSU campus to provide services in the event of a local disaster will become obsolete in the near future.

Typically, mainframe environments utilize back up generators in the event of power failures and local disasters and have also established reciprocal service agreements with other agencies.

The previous senior director, computing services had reportedly evaluated the risk of not having a back-up generator and accepted this risk. Additionally, the mutual services in the current reciprocal agreement with San Diego State University (SDSU) will not be available in the near future as a result of SDSU's migration to a different computer environment.

Without the availability of both a back-up generator and a current reciprocal agreement with another agency, there is an increased risk of interruption of data services in the event of a power failure or local disaster.

Recommendation 10

We recommend that the campus:

- a. continue to periodically review their disaster recovery plan to determine the feasibility of installing a back-up generator; and
- b. ensure that a reciprocal agreement with another agency is in place concurrently with the expiration of the agreement with San Diego State University.

Campus Response

- a. We continue to review and update our disaster recovery plan annually. We have a backup generator for systems other than the IBM mainframe which handles fiscal IT applications. Physical Plant has engaged an electrical engineer consultant to develop various disaster recovery scenarios for the entire campus. Current plans call for developing the ability to export power from the campus co-generation facility to selected campus facilities. In case the co-generation facility is also damaged the campus has procured a 500kw portable generator that could be used to power all or parts of a single building. The deployment and connection strategy of the portable generator is a component of the consultant's study, which should be completed by January 2000. Planning to provide back-up power will be closely coordinated with the Computer Center.
- b. On the second recommendation to initiate a disaster recovery reciprocal agreement with another campus, we have investigated the feasibility of this approach and have determined that the amount of machine and software resources is too limited as it currently exists on each campus, and would not be cost effective to remedy. Therefore, we have proceeded with another approach for an alternative backup site by implementing agreements with two vendors to provide emergency

facilities and computer equipment in case of a disaster. Purchase order agreements have been issued to two vendors: COMDISCO and El Camino Resources, Ltd.

APPLICATION CHANGE CONTROL

Programmers are currently permitted to move applications from the testing environment to the production environment without any compensating controls.

SAM §8080.1 states that a key element in a system of internal control is separation of duties. Industry standards recommend that programmers not be allowed to move their own developments and changes from test to production environments.

According to the business systems coordinator, programmers have a number of years of experience and therefore have been allowed to move applications to production from the test areas.

A lack of compensating controls related to separation of duties increases the risk of unauthorized program changes or errors that impact other systems.

Recommendation 11

We recommend that compensating controls be established to mitigate the overlap of duties that exists for both installing applications and making changes in a production environment.

Campus Response

We concur with the principle of separating duties involved in installing applications and making changes in a production environment. Computing Services will investigate the feasibility of separating duties within the next month. Alternative approaches and possible resource implications will be reviewed before we determine an implementation plan and date.

TRUST FUNDS

TRUST AGREEMENT INSTRUCTIONS

Trust agreements in the accounting office were not always properly completed.

A sample of eleven trust fund agreements administered by the campus disclosed that:

- eight lacked instructions regarding time constraints;
- none addressed reporting requirements;

- ten did not address instructions for closing the account;
- six lacked instructions for the disposition of unexpended balances;
- one did not address the use of moneys for administrative or overhead costs; and
- three of the tested agreements included a specimen signature from a former employee.

SAM §19440.1 states that each trust account shall be supported by documentation which should include, among other information, instructions for closing the account and disposition of any unexpended balance in the account.

The manager, special funds accounting, attributed the missing information to the fact that the custodians of the trust accounts are not appropriately completing or updating trust agreements.

Incomplete trust agreements could result in inappropriate expenditures and management of trust funds.

Recommendation 12

We recommend that the campus strengthen oversight procedures to ensure that trust fund instructions are properly completed before any activity in the accounts is permitted.

Campus Response

We concur. Corrective actions have been taken to ensure that all trust agreements are properly completed. In May of this year, instructions were issued to campus departments requiring that each trust agreement include time constraints, reporting requirements, instructions for closing the account, and a statement of what is to be done with any residual balance in the account. Transactions will be stopped for trust accounts not in compliance after August 31, 1999.

SIGNATURE AUTHORIZATIONS

Trust account signature authorizations were not always current. This is a repeat finding from our prior FISMA audit.

Our review of twenty trust fund expenditures disclosed that:

- four of the twenty expenditures tested had signatures approving payment that did not match the signatures on the trust agreement.
- one of the twenty expenditures had a purchase that did not meet the criteria for disbursements as stated in the trust agreement.

SAM § 19440.1 requires trust documentation to include the names of those individuals authorized to make expenditures.

The manager, special funds accounting, indicated that the custodians of the trust accounts are not appropriately completing or updating trust agreements. Furthermore, expenditures authorized by the appropriate individuals are not always evaluated for reasonableness.

By not completing or updating accounts to reflect changes in expenditure authority, there is an increased risk of loss or misuse of trust funds.

Recommendation 13

We recommend that the campus strengthen oversight procedures to ensure that trust fund expenditures are properly authorized.

Campus Response

We concur. The Trust Accounting staff is reviewing all trust agreements to ensure current signature authorizations are on file. Copies of the signed agreements are now provided to the Procurement Department and to Accounts Payable to verify expenditure authority before funds are committed and expended.

APPENDIX A: PERSONNEL CONTACTED

Name

Jan Andreasen
Aludia Artiga
Michael Benincasa
Yvette Bond
Julie Chan
Richard Chen
Cathy Cheng
Philippe Cumia
Dan Davis
Denise Fox
Richard Garbarino
Lily Gee
Michael Getman
Lien Ho
Wanda Humphrey
Wayne Kuhaupt
Phoebe Kwan
Johnny La
Franz Lozano
Ligaya Mendoza
Claudette Neveu
David O'Brien
Juliet Olson
Jeffrey O'Toole
Song Park
Armen Perez

Thomas Rutter
Jose Sampang
Julie Savignano
Don Scoble
Goldee Seidman
Lena Sum
Steve Taketa
Jerry Trobaugh
Gloria Tseung
Richard Uchida
Jim Van Ness

Title

Director - Residential Administrative Services
Accountant – Fiscal Affairs
Warehouseperson – Campus Support Services
Cashier/Insurance Liaison – Student Health Services
Senior Payroll Specialist – Human Resources
Accountant – Fiscal Affairs
Accounting Technician – Fiscal Affairs
Asst. Director – Residential Admin. Services
Captain – University Police
Director – Human Resources
Director – Property and Inventory
Parking Coordinator – Parking and Transportation
Accounting Technician – Fiscal Affairs
Pharmacist – Student Health Services
Payroll Coordinator – Human Resources
Director, Univ. – Collections & Disb.
Interim Senior Director – Computing Services
Accounting Technician – Fiscal Affairs
Bursar – Bursars Office
Payroll Specialist – Human Resources
Lead Account Specialist – Bursars Office
Director – Purchasing and Contracts
Business Manager – Student Health Services
Property Clerk – Campus Support Services
Proc. Card Coord. – Purch. & Contracts
Occupancy/Payments Coordinator – Residential Administrative Services

Exec. Director – Enrollment Plan. & Mgmt.
Accountant – Fiscal Affairs
Purch. Support Supv. – Purchasing and Contracts
Vice President – Business and Finance
Accounting Tech. – Res. Administrative Services
Travel Coordinator – Fiscal Affairs
Manager – Library Rapid Copy Center
Detective Sergeant – University Police
Accountant – Fiscal Affairs
Business Officer – Library Administration
Internal Auditor – Business and Finance

APPENDIX A: (CONT)

Anne Velez
Edwin Waite
Larry Ware
Burkland Wong
Corazon Wong
Armando Ysip

Supervisor – Accounts Payable
Associate Director – Human Resources
Controller – Fiscal Affairs
Manager – Special Funds Accounting
Manager – Business Systems
Manager – Govt. Funds Accounting

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.