

FISMA

**CALIFORNIA STATE UNIVERSITY,
LOS ANGELES**

**Report Number 00-01
May 26, 2000**

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ABBREVIATIONS

COBIT	Control Objectives for Information Technology
CSU	California State University
FIPS	Federal Information Processing Standard
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
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 1998-1999 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 December 1999. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ 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 Los Angeles campus from January 10, 2000 through February 25, 2000 and made a study and evaluation of the accounting and administrative control in effect as of February 25, 2000. 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 Los Angeles' management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is 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 control 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 study and evaluation revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate control over the following areas: cash receipts, revolving funds, and trust funds.

These conditions, along with other weaknesses, are described in the Executive Summary and body of this report.

In our opinion, due to the effect of the weaknesses described above, the CSU Los Angeles' accounting and administrative control in effect as of February 25, 2000, taken as a whole, were 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 three satellite cashiering areas visited. Adequate accounting and control of cash collections and deposits decrease the risk that misappropriation of funds will not be detected.

ACCOUNTS RECEIVABLE [8]

DOCUMENTATION [8]

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

PURCHASING [9]

PURCHASE APPROVALS [9]

Transaction receipts over procurement card purchases were inappropriately signed by employees other than the cardholders. Improving such controls reduces the risk of inappropriate expenditures.

REVOLVING FUND [10]

CHANGE FUNDS [10]

A change fund had been established within the parking office in the amount of \$2,400 without proper authority. In addition, neither the parking office change fund nor facilities and housing change funds of \$1,000 each were being counted on a timely basis. Timely counts of properly authorized change funds decrease the risk that missing funds will not be detected.

SALARY ADVANCES [11]

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

CASH DISBURSEMENTS [12]

CHECK LOG [12]

The check log was not sufficiently reviewed. Strengthening such reviews reduces the risk of theft and misuse of state funds.

FISCAL INFORMATION TECHNOLOGY [12]

DISASTER RECOVERY [12]

The disaster recovery plan does not contain an agreement with another campus for remote site processing in the event of a disaster. A current disaster recovery plan ensures continuity of computing operations for support of critical applications.

DATA ACCESS [13]

Password configurations had not been evaluated in light of new technology. Ensuring proper access to system screens decreases the risk of unauthorized access and inappropriate actions.

PEOPLESOFT IMPLEMENTATION [13]

BANK RECONCILIATIONS [14]

Bank reconciliations were not prepared in a timely manner. The timely completion of bank reconciliations reduces the risk that errors and irregularities will not be detected.

OTHER RECONCILIATIONS [14]

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

TRUST FUNDS [15]

Reporting to the trust accounts was not performed timely. Timely reporting to the trust funds reduces the risk of inappropriate expenditures.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash control weaknesses were found at each of the three satellite cashiering areas visited (admission, parking, and athletics).

Admissions

- ▶ checks were not restrictively endorsed; and
- ▶ checks of over \$10,000 were retained prior to being transmitted to the central cashier.

The document processing coordinator indicated the delay was due to workload issues.

Parking

- ▶ parking decal reconciliations were not performed timely. The last reconciliation performed was for June 1999.

The director of student financial services indicated that, due to the implementation of PeopleSoft Financials for the 1999-2000 fiscal year, there has been a delay in the accessibility of financial information.

Athletics

- ▶ checks were not restrictively endorsed at the end of the working day; and
- ▶ checks were retained more than one month prior to being transmitted to the central cashier.

The assistant director of finance, division of Intercollegiate Athletics, indicated that he was not aware of the SAM requirement concerning restrictively endorsed checks. He also indicated that the checks were retained when he was on vacation.

SAM §8032.1 states, in part, that agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants, and that accumulated receipts of any amount will not remain undeposited for more than ten working days.

SAM §8034.1 states in part that agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received.

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 increases the risk that misappropriation of funds will not be detected.

Recommendation 1

We recommend that the campus ensure that the following actions are taken at the appropriate satellite cashiering operations:

- a. cash collections from admissions and athletics are deposited timely;
- b. checks in admissions and athletics are restrictively endorsed by the end of the day; and
- c. parking permit reconciliations are prepared monthly.

Campus Response

Procedure updates have been implemented. Beginning in June 2000, checks received by Admissions and Athletics will be restrictively endorsed by the end of the day and deposited within the requirements of SAM 8032. 1. Also, parking permit reconciliation will be performed monthly.

ACCOUNTS RECEIVABLE

DOCUMENTATION

Documentation of accounts receivable collection efforts was insufficient.

From our sample of outstanding receivables we noted that 5 of 11 non-student receivables (\$48,198 of \$69,335) and 2 of 15 student receivables (\$1,566 of \$18,416) reviewed did not include 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 call.

The accounts receivable supervisor stated that, due to workload issues, follow-up calls for the non-student accounts receivable occurred but were not recorded.

The director of student financial services indicated that the two noted student receivable exceptions were isolated instances where interdepartmental coordination did not work well.

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

Recommendation 2

We recommend that the campus strengthen procedures to ensure that account collection efforts are documented.

Campus Response

Procedure updates have been implemented. Beginning in July 2000, account collection efforts will follow the updated procedures requiring documentation of follow-up collection efforts.

PURCHASING

PURCHASE APPROVALS

Transaction receipts over procurement card purchases were inappropriately signed by employees other than the cardholders.

We reviewed ten procurement card statements covering the period of September to November 1999. Four statements contained transaction receipts signed by employees other than the cardholder.

The agreement signed by the cardholder states in part that any unauthorized use or misuse of the card will result in an immediate two-year suspension and defines "unauthorized use" as allowing someone else to use his/her procurement 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 procurement and contracts indicated that the items were purchased over the telephone by the cardholders, and fellow employees signed the credit card slips when they picked up the merchandise. He also indicated that other controls such as monthly line item reviews conducted by the cardholders, the approving official, and the program administrator are in place to ensure that purchases are valid.

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

Recommendation 3

We recommend that the campus strengthen procedures to ensure that procurement cards are used by authorized cardholders only.

Campus Response

Procedure updates have been implemented. Cardholders have been instructed to ensure that non-cardholders picking up will-call items sign the packing slip and not the credit card receipt to provide proof of pick-up.

REVOLVING FUND

CHANGE FUNDS

A change fund had been established within the parking office in the amount of \$2,400 without proper authority. In addition, neither the parking office change fund nor facilities and housing change funds of \$1,000 each were being counted on a timely basis.

We found that, although the parking office was using the change fund for replenishment of parking dispensers, there was no record that this fund had been authorized by the Department of Finance. The origin of this fund was from parking cash receipts. Although cash counts for facilities and housing petty cash funds were performed in March, June, and October 1999, this is not as often as is required by SAM.

SAM §8111 states that change funds may be established to provide cash in denominations and amounts necessary to permit the making of change in the day-to-day cash collecting operations of an agency.

SAM §8111.1 states that each change fund in excess of \$500 will be established only after approval of the Fiscal Systems and Consulting Unit, Department of Finance.

SAM §8111.2 requires monthly independent cash counts of change funds over \$1,000.

The controller indicated that the \$2,400 fund is not considered a change fund because it came from cash receipts from parking dispensers. These monies are to be used for replenishment of the dispensers, which had been retained by parking and not yet deposited. The fund is used in the daily parking operation. The controller also indicated that is not practical to perform cash counts of coins retained by the parking dispensers.

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

Recommendation 4

We recommend that the campus:

- a. request approval from the Department of Finance for the parking office change fund; and
- b. ensure that change funds over \$1,000 are counted on a monthly basis.

Campus Response

Procedure updates have been updated. The parking office change fund was discontinued in April 2000. Also, the other change funds have been reduced to \$500 and will be counted quarterly.

SALARY ADVANCES

Salary advances were not cleared in a timely manner. This is a repeat finding from our prior FISMA audit.

As of February 24, 2000, five salary advances totaling \$8,879 were more than 90 days old.

SAM §8116 and SUAM §3813 require prompt clearance of salary advances or if deemed uncollectable, that local write-off and relief from accountability action be taken. SUAM §3813 specifies the time requirements for recovery of salary advances.

The controller and the payroll manager indicated that, due to workload issues, the advances did not receive proper follow up.

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 5

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

Campus Response

Procedure updates have been updated. Beginning in June 2000, Payroll Technicians will follow the updated desk procedures to track and follow up on salary advances.

CASH DISBURSEMENTS

CHECK LOG

The check log was not sufficiently reviewed.

Our review of the check writing process revealed that an employee other than the check operator did not review the check log.

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 assistant vice president of administration and finance indicated that other controls were in place, such as independently validating the number of checks printed and spot checking checks printed against the check registers.

Lack of check log reviews increase the risk of theft and misuse of state funds.

Recommendation 6

We recommend that the campus strengthen procedures to ensure that the check log is independently reviewed.

Campus Response

Procedure updates have been updated. In May 2000, Administrative Technology implemented a check log that is signed-off by the department manager.

FISCAL INFORMATION TECHNOLOGY

DISASTER RECOVERY

The disaster recovery plan does not contain an agreement for remote site processing.

Effective risk management requires that a disaster recovery plan be periodically updated. According to SAM §4843, identification and evaluation of alternative recovery strategies should be completed and an agency must maintain an operational recovery plan. The plan must be adjusted to changing circumstances, such as equipment.

The associate vice president of information resources management focused priorities on preparing for Y2K and acknowledged that the disaster recovery plan needed to be updated.

The absence of a current disaster recovery plan results in an inability to ensure the continuity of computing operations for support of critical applications, maximization of the use of remaining resources, and achievement of an orderly migration toward the resumption of all computing services.

Recommendation 7

We recommend that the campus develop an agreement for remote site processing as part of the disaster recovery plan.

Campus Response

Procedure updates have been initiated. By July 2000, the campus will finalize an agreement to have emergency replacement of equipment by an appropriate vendor and the Disaster Recovery Plan will be updated accordingly.

DATA ACCESS

Password configurations had not been evaluated in light of new technology.

Control Objectives for Information Technology (COBIT) and Federal Information Processing Standards Publication 112 (FIPS112) recommend that guidelines be established for an appropriate minimum password length and an appropriate and enforced frequency of password changes. Additionally, SAM §20003 and §4840 require, 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 associate vice president of information resources management stated that the configuration of the access security had not been reviewed periodically to ensure that it meets current practices.

Inadequate configurations of system security software could allow unauthorized users to gain access to campus systems and confidential data.

Recommendation 8

We recommend that the campus increase the password character requirement, revoke user identifications after a specified number of failed attempts, set passwords to expire, and historically maintain passwords for several iterations to prevent reuse.

Campus Response

Procedure updates have been initiated. By July 2000, minimum password length will be increased, logon attempts will be revoked after a predefined number of unsuccessful attempts, password expiration will be defined, and password history will be maintained to prevent reuse.

PEOPLESOFT IMPLEMENTATION

BANK RECONCILIATIONS

Bank reconciliations were not prepared in a timely manner.

Bank reconciliations for July, August to October, and November 1999 were performed in November 1999, December 1999, and February 2000, respectively. Bank reconciliations for December 1999 and the following months had not been reconciled. Prior to the PeopleSoft implementation, bank reconciliations were prepared and reviewed on a timely basis.

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 stated that the implementation of PeopleSoft delayed completion of bank reconciliations.

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

Recommendation 9

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

Campus Response

Due to the PeopleSoft implementation, bank reconciliations were delayed. As of June 2000, all bank reconciliations are current and the monthly reconciliation cycle is re-established.

OTHER RECONCILIATIONS

Revolving fund, State Controller's Office (SCO) expenditures, fixed assets, and investment reconciliations were not performed timely.

The SCO expenditure, fixed assets, and investment reconciliations had not been completed since June 1999. Revolving fund reconciliations for the months of July, August, and September 1999 were prepared on January 20, January 25, and February 4, 2000, respectively. At the time of our review, revolving fund reconciliations for October 1999 and the following months had not been reconciled. Basic reports necessary to perform these reconciliations have not been generated from the PeopleSoft system. However, these reconciliations were completed in a timely basis prior to the PeopleSoft implementation.

SAM §7800 requires that the subsidiary ledger be reconciled to the general ledger account monthly.

SAM §7900 requires monthly preparation of all reconciliations of agency accounts to records other than those prepared by the agency within 30 days of the preceding month.

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.

SAM §8193 states that two monthly reconciliations are required for revolving fund transactions. The Revolving Fund Cash Book balance plus the general ledger balance of Account No. 1110, General Cash, and Account No. 1120, Agency Trust Fund Cash, will be reconciled to the General Checking Account in the centralized State Treasury System. Also, the revolving fund resources will be reconciled with the amount of cash advanced as shown in Account No. 1130 of the funds concerned.

The university controller attributed the delay of completed reconciliations to the campus' financial system conversion to PeopleSoft. He indicated that his office is closely monitoring the expenditures and will be ready when the SCO reconciliation is developed. The controller also indicated that the fixed asset reconciliation is not necessary because the purchasing, accounting, and fixed asset systems are integrated in PeopleSoft. All fixed assets transactions will eventually feed through each system.

Not performing timely reconciliations can result in errors and irregularities not being detected early.

Recommendation 10

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

Campus Response

Due to the PeopleSoft implementation, some reconciliations were delayed. As of June 2000, the reconciliation for revolving fund, SCO expenditures, and investments are current and the monthly reconciliation cycle is reestablished.

TRUST FUNDS

Reporting of trust fund activity to trust account custodians was not performed timely.

Our review of 11 trust accounts indicated that trust activities have not been reported to trust account custodians since June 1999. Prior to the PeopleSoft implementation, the activities of the trust accounts were communicated to the trust custodians quarterly.

SAM §19440.1 states that trust accounts are to be supported by documentation as to the type of trust, donor or source of trust moneys, purpose of the trust, time constraints, persons authorized to withdraw

or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of moneys for administrative or overhead costs.

The controller indicated that the delay was due to the implementation of PeopleSoft. The reports of trust activities through November 1999 have recently been sent to all trust administrators.

Untimely reporting of trust activities to trust account custodians increases the risk of inappropriate expenditures.

Recommendation 11

We recommend that the campus ensure that reporting of trust account activity to trust account custodians is timely.

Campus Response

Procedure updates have been implemented. In May 2000, monthly reports to trust account custodians were implemented.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Dr. James M. Rosser	President
Chris Amesquita	Property Clerk
Elsa Balladares	Procurement Administrative Assistant
Cynthia Burks	General Accounting Supervisor
Fausto Caceres	Lead Payroll Technician
Desdemona Cardoza	Vice President of Information Resources Management
Arlene Caudillo	Admission Administrative Support II
Linda Chow	Accounts Payable Supervisor
Lee De Leon	Assistant Director/Finance, Division of Intercollegiate Athletics
Jackie Diep	Administrative Information Services Manager
Steve Garcia	Vice President of Administration and Finance
Silvia Gonzalez	Human Resources Manager
Bruce Griffin	Information Technology Consultant
Ann Harris	Accounts Receivable Supervisor
Patricia Higuchi	Director of Administrative Technology
Robert Hoffmann	Operation Manager of Information Resources Management Operations
Robert Horch II	Parking Manager
Tito Ibarrola	Acting Budget and Cash Manager
Elizabeth (Libby) Kent	University Travel Coordinator
Brian Kritzell	Director of Procurement and Contracts
Yuet Lee	Internal Auditor
Jorge Lomeli	Computer Systems Technician
Anna Lovoy	Collector of Student Loan Services and Collections
Jacqueline Mejia	Sports Information Director
Joseph Mitchell	Materials Management Manager
Ilene Miyahara	Office Manager of Financial Management and Services
Gary Murph	Assistant Vice President of Administration & Finance/Financial Services
Mitra Nasri	Property and Campus Stores Supervisor
Diane Paramo	Director of Student Financial Services
Stephen Pollard	Director of Academic Technology Support
Peter Quan	Associate Vice President of Information Resources Management
Sri Renganathan	University Controller
Blanca Rodriguez	Payroll Manager
Lorraine Rodriguez	Purchasing Agent
Hubert Sim	System Technician
Henry Soto	Director of University Budgets
Paula Tcheng	Accountant
Estela Toledo	Accounting Receptionist
Joanne Tsuyuki	Library Administrative Services Officer
Alfred Varos	Shipping and Receiving Supervisor
Angela Warren	Purchasing Agent
Sandy Wong	Disbursement Supervisor
Margo Young	Associate University Librarian

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.

CALIFORNIA STATE UNIVERSITY, LOS ANGELES



5151 STATE UNIVERSITY DRIVE, LOS ANGELES, CA 90032-8500

OFFICE OF THE PRESIDENT

(323) 343-3030 FAX: (323) 343-3039 <http://www.calstatela.edu>

June 30, 2000

Mr. Larry Mandel, University Auditor
Office of the University Auditor
Office of the Chancellor – The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

**Re: University's response to recommendations contained in Report 00-01,
Financial Integrity and State Manager's Accountability Act (FISMA)**

Dear Mr. Mandel:

Attached are the University's responses to the recommendations contained in Report Number 00-01, FISMA. As indicated in the attached, eight of the eleven recommendations have been implemented. The remaining three recommendations have been initiated and will be implemented by July 2000.

Please contact Mr. Yuet Lee, University Internal Auditor, at (323) 343-3602 if you wish to discuss any matter contained herein.

RECEIVED
University Auditor

JUL 05 2000

The California State
University

Sincerely,

James M. Rosser
President

Attachment

cc: Steven N. Garcia, Vice President, Administration and Finance
Patty Higuchi, Director of Administrative Technology
Brian Kritzell, Director of Procurement and Contracts
Yuet Lee, University Internal Auditor
Joe Mitchell, Manager of Materials Management
Sri Renganathan, University Controller
Peter Quan, Associate Vice President of Information Resources Management
Henry Soto, Director of Budget Administration

The California State University

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ATTACHMENT, 00-01

Recommendation 1

We recommend that the campus ensure that the following actions are taken at the appropriate satellite cashiering operations:

- a. cash collections from admissions and athletics are deposited timely;
- b. checks in Admissions and Athletics are restrictively endorsed by the end of the day; and
- c. parking permit reconciliations are prepared monthly.

Campus Response

Procedure updates have been implemented. Beginning in June 2000, checks received by Admissions and Athletics will be restrictively endorsed by the end of the day and deposited within the requirements of SAM 8032.1. Also, parking permit reconciliation will be performed monthly.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that account collection efforts are documented.

Campus Response

Procedure updates have been implemented. Beginning in July 2000, account collection efforts will follow the updated procedures requiring documentation of follow-up collection efforts.

Recommendation 3

We recommend that the campus strengthen procedures to ensure that procurement cards are used by authorized cardholders only.

Campus Response

Procedure updates have been implemented. Cardholders have been instructed to ensure that non-cardholders picking up will-call items sign the packing slip and not the credit card receipt to provide proof of pick-up.

Recommendation 4

We recommend that the campus:

- a. request approval from the Department of Finance for the parking office change fund; and
- b. ensure that change funds over \$1,000 are counted on a monthly basis.

Campus Response

Procedure updates have been updated. The parking office change fund was discontinued in April 2000. Also, the other change funds have been reduced to \$500 and will be counted quarterly.

Recommendation 5

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

ATTACHMENT, 00-01

Campus Response

Procedure updates have been updated. Beginning in June 2000, Payroll Technicians will follow the updated desk procedures to track and follow up on salary advances.

Recommendation 6

We recommend that the campus strengthen procedures to ensure that the check log is independently reviewed.

Campus Response

Procedure updates have been updated. In May 2000, Administrative Technology implemented a check log that is signed-off by the department manager.

Recommendation 7

We recommend that the campus develop an agreement for remote site processing as part of the disaster recovery plan.

Campus Response

Procedure updates have been initiated. By July 2000, the campus will finalize an agreement to have emergency replacement of equipment by an appropriate vendor and the Disaster Recovery Plan will be updated accordingly.

Recommendation 8

We recommend that the campus increase the password character requirement, revoke user identifications after a specified number of failed attempts, set passwords to expire, and historically maintain passwords for several iterations to prevent reuse.

Campus Response

Procedure updates have been initiated. By July 2000, minimum password length will be increased, logon attempts will be revoked after a predefined number of unsuccessful attempts, password expiration will be defined, and password history will be maintained to prevent reuse.

Recommendation 9

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

Campus Response

Due to the PeopleSoft implementation, bank reconciliations were delayed. As of June 2000, all bank reconciliations are current and the monthly reconciliation cycle is re-established.

Recommendation 10

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

ATTACHMENT, 00-01

Campus Response

Due to the PeopleSoft implementation, some reconciliations were delayed. As of June 2000, the reconciliation for revolving fund, SCO expenditures, and investments are current and the monthly reconciliation cycle is re-established.

Recommendation 11

We recommend that the campus ensure that reporting of trust account activity to trust account custodians is timely.

Campus Response

Procedure updates have been implemented. In May 2000, monthly reports to trust account custodians were implemented.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

July 19, 2000

CHICO

MEMORANDUM


DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed 

HUMBOLDT

SUBJECT: Draft Final Report Number 00-01 on *FISMA*,
California State University, Los Angeles

LONG BEACH

LOS ANGELES

In response to your memorandum of July 19, 2000, I accept the response
as submitted with the draft final report on *FISMA*, California State
University, Los Angeles.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/cw

POMONA

Enclosure

SACRAMENTO

cc: Dr. James M. Rosser, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS