

FISMA
CALIFORNIA STATE UNIVERSITY
CHICO

Report Number 00-02
June 26, 2000

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ABBREVIATIONS

COBIT	Control Objectives for Information Technology
CSU	California State University
CSUC	California State University Chico
FISMA	Financial Integrity and State Manager's Accountability Act
FY	Fiscal Year
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 years 1998-99 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 1999 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 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 addressed.

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 CSU Chico campus from January 18, 2000 through March 10, 2000 and made a study and evaluation of the accounting and administrative control in effect as of March 10, 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 Chico's 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.
- ▶ 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 did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the Executive Summary below and in the body of the report.

In our opinion, the accounting and administrative control at CSU Chico in effect as of March 10, 2000, taken as a whole, was 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.

REVOLVING FUND [5]

Independent cash counts of some petty cash/change funds were not occurring timely. Independent and timely counts of change and petty cash funds reduce the risk that missing funds will not be detected timely.

FIXED ASSETS [5]

PROPERTY SURVEY REPORTS [5]

The Property Survey Reports were not always completed properly or timely. Proper completion of property survey reports strengthens accountability over disposal of state property.

MISSING PROPERTY [6]

Campus departments were not responding to inventory exception reports timely. Timely responses to these reports increase the accuracy of campus property and general ledger accounting records and enhance investigation of the missing property.

FISCAL INFORMATION TECHNOLOGY [7]

The setup configuration for passwords in the system security software was in need of improvement. Strengthening the setup configuration for passwords will reduce the risk of unauthorized users gaining access to CSU systems and confidential data.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

REVOLVING FUND

Independent cash counts of some petty cash/change funds were not occurring timely.

During our review of change and petty cash funds that were either opened or available in fiscal year 1998 and 1999, we noted three, which were not counted as often as is required.

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

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

The director of accounting operations indicated that, due to recent supervisory and staff turnover and increased workload related to capital projects and reporting requirements, established procedures defining the frequency of independent cash counts was not adhered to.

Failure to perform independent and timely counts of change and petty cash funds increases the risk that missing funds will not be detected for extended periods of time.

Recommendation 1

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

Campus Response

The campus concurs with this recommendation. Effective immediately, independent cash counts will be conducted on all petty cash/change funds within the required frequency.

FIXED ASSETS

PROPERTY SURVEY REPORTS

Property survey reports were not always completed properly or timely.

Our review of property records processed between January 1999 through February 2000 revealed that property survey reports were either not completed timely or completed at all in three of seven incident reports reviewed.

SAM §8643 indicates 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 §3520.5 indicates, in part, that a properly executed property survey report must be completed when disposing of state-owned property.

The director of financial services indicated that the campus' existing organizational structure has not afforded the Property Management Department an appropriate degree of leverage with campus departments. As a result, inter-department communication obstacles have occurred with the Property Management Department.

Incomplete property survey reports reduce accountability over disposal of state property.

Recommendation 2

We recommend that the campus review and strengthen property survey procedures to ensure that property survey reports concerning lost, stolen or missing property are completed timely.

Campus Response

The campus concurs. Property Survey procedures will be evaluated and modified for compliance with SAM §3520.5 by 1/31/01, to ensure property survey reports are properly executed.

MISSING PROPERTY

Campus departments were not responding to inventory exception reports timely.

We found that eight of 22 departments had not responded to the latest request for information regarding missing inventory items.

SAM §8652 requires that inventory adjustments take place after the physical count has been completed.

Annual memos, requesting that an inventory exception report be completed for each item noted as missing during the last inventory, are submitted to the departments. These memos are co-authored by the vice presidents and provost; the last one was dated November 10, 1999 with a response date of December 10, 1999.

The property clerk indicated that departments consider inventory exception reports to be a low priority. Therefore, departmental staff do not respond to inventory exception reports.

Not responding timely to missing inventory items decreases the accuracy of campus property and general ledger accounting records and hampers the timely investigation of missing property.

Recommendation 3

We recommend the campus strengthen procedures to ensure that departments complete and return inventory exception reports to the property office in a timely manner.

Campus Response

The campus concurs. Additional follow up procedures will be implemented as part of the annual January 2001 inventory exception report cycle, so that missing inventory items will be properly investigated and accounting records will be accurately maintained and returned to the Property Management Department in a timely manner.

FISCAL INFORMATION TECHNOLOGY

The setup configuration for passwords in the system security software was in need of improvement.

We noted the following deficiencies during our review of data security configuration:

- ▶ The campus had not established a minimum number of characters to set up a password.
- ▶ Passwords were not historically maintained to prevent reuse, nor were they set up to log off the user after a period of inactivity or to revoke users after a specified number of failed password attempts.

Control Objectives for Information Technology (COBIT) and Federal Information Processing Standards Publication 112 recommends that guidelines be established for an appropriate minimum password length and that any password changes be enforced. Additionally, Department of Defense Password Management Guideline (Greenbook) states that passwords should be a minimum length, a history of passwords is maintained to prevent reuse, and users are logged off users after a predetermined time.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control includes a plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties.

The director of computing services stated that the configuration of the access security had not been periodically reviewed to ensure that it meets current guidelines.

Inadequate setup configurations for passwords increases the risk of unauthorized users gaining access to CSU systems and confidential data.

Recommendation 4

We recommend that the campus enhance the access security system by:

- a. increasing the minimum length of the password;
- b. increasing the frequency of periodic changes to the password; and
- c. maintaining a history of passwords to prevent reuse, revoking user identification after failed password attempts, and signing off users after a period of inactivity.

Campus Response

The Director of Computing Services will review the current configuration of the access security to ensure compliance with SAM §20003 no later than 12/31/00. Further clarification of above recommendations is needed to determine feasibility of implementation.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Manuel A. Esteban	President
Miles Allen	Director, New Technologies Business Process Mapping
Andi Beach	Supervisor, Payroll Services
Michael Biechler	Vice Provost for Human Resources
Jan Burnham	Director, Student Financial Services
Cindy Cleland	Director, Accounting Operations
Cindy Collinsworth	Director, Payroll Services
Patty Darr	Accounting Technician, Accounting Operations
Dennis Frazier	Director, Human Resources
Denise Gavello	Receivables Assistant, Student Financial Services
Debbie Gott	Registered Pharmacist, Student Health Center
Dennis Graham	Vice President, Business and Finance
Jeannie Graham	Main Library Circulation Supervisor, Library
Pattie Hannemann	Director, Procurement Services
Kathi Hiatt	Public Service Supervisor, Student Registration & Records
Charlie Harless	Manager, Warehouse Operations and Services
Lou Kelly	Buyer, Purchasing Department
Michelle Korte	Director, External Reporting and Audits
Julia Larson	Records Clerk, University Police
Gary Marquis	Systems Analyst, New Technologies Business Process Mapping
Debbie McElroberts	Director, Computing Services
Doreen Mendes	Accounting Technician, Accounting Operations
Richard Milliron	Lab Coordinator, College of Business
Michael Minard	Director, University Police
Ria Pope	Administrative Assistant, Financial Services
Laura Randall	Systems Analyst, New Technologies Business Process Mapping
Sondra Sample	Supervisor, Accounts Payable
Sandy Smith	Travel Clerk, Accounts Payable
Gilbert Tyrrell	Property Clerk, Property Management
George Wellman	Director, Financial Services
Stephanie Yule	Director, Financial Aid Business Services

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.

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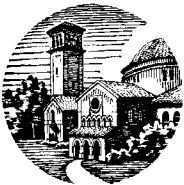
August 25, 2000

RECEIVED
 University Auditor

AUG 30 2000

**The California State
 University**

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



Dear Mr. Mandel:

I have reviewed the findings and recommendations included in the FISMA Audit Report. The campus has also reviewed its policies and procedures as they relate to your findings and recommendations. We understand campus responses should be incorporated into the report for presentation to the Board of Trustees as a public document.

Recommendation 1: We recommend that the campus ensure that independent cash counts of all petty cash/change funds occur within the required frequency.

Campus Response: The campus concurs with this recommendation. Effective immediately, independent cash counts will be conducted on all petty cash/change funds within the required frequency.

Recommendation 2: We recommend that the campus review and strengthen property survey procedures to ensure that property survey reports concerning lost, stolen or missing property are completed timely.

Campus Response: The campus concurs. Property Survey procedures will be evaluated and modified for compliance with SAM §3520.5 by 1/31/01, to ensure property survey reports are properly executed.

Recommendation 3: We recommend the campus strengthen procedures to ensure that departments complete and return inventory exception reports to the property office in a timely manner.

Campus Response: The campus concurs. Additional follow up procedures will be implemented as part of the annual January 2001 inventory exception report cycle, so that missing inventory items will be properly investigated and accounting records will be accurately maintained and returned to the Property Management Department in a timely manner.

Mr. Larry Mandel
August 25, 2000
Page 2

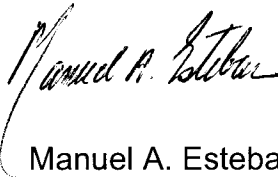
Recommendation 4: We recommend that the campus enhance the access security system by

- a. increasing the minimum length of the password;
- b. increasing the frequency of periodic changes to the password; and
- c. maintaining a history of passwords to prevent reuse, revoking user identification after failed password attempts, and signing off users after a period of inactivity.

Campus Response: The Director of Computing Services will review the current configuration of the access security to ensure compliance with SAM §20003 no later than 12/31/00. Further clarification of above recommendations is needed to determine feasibility of implementation.

I hope the above responses meet with the audit committee's approval. If there are any questions, please do not hesitate to contact me.

Sincerely,



Manuel A. Esteban
President

cc: Dennis C. Graham
George Wellman
Michelle Korte

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

August 31, 2000

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed 

HUMBOLDT

SUBJECT: Draft Final Report Number 00-02 on *FISMA*,
California State University, Chico

LONG BEACH

LOS ANGELES

In response to your memorandum of August 31, 2000, I accept the response as submitted with the draft final report on *FISMA*, California State University, Chico.

MARITIME ACADEMY

MONTEREY BAY

NORTHBRIDGE

CBR/cw

POMONA

Enclosure

SACRAMENTO

SAN BERNARDINO

cc: Dr. Manuel A. Esteban, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS