

FISMA

**CALIFORNIA STATE UNIVERSITY,
STANISLAUS**

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ABBREVIATIONS

CSU	California State University
CSU Stanislaus	California State University, Stanislaus
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
ID	Identification
IT	Information Technology
PMB	Parking Management Bureau
SAM	State Administrative Manual
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.
- ▶ Trust funds are established in accordance with State University Administrative Manual 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 1999-2000 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 September 2000 to February 2001. 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.

INTRODUCTION

- ▶ 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.
- ▶ 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 California State University (CSU) is currently responsible for conducting such audits within the CSU.

This report represents our biennial review.

OPINION

We visited the California State University, Stanislaus (CSU Stanislaus) campus from February 5, 2001, through April 6, 2001, and made a study and evaluation of the accounting and administrative control in effect as of April 6, 2001. Our study and evaluation were 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 Stanislaus 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 audit disclosed conditions which, in our opinion, could result in significant errors and irregularities if they are not corrected. Specifically, the campus does not maintain adequate internal controls over the following areas: cash receipting, cash disbursements, and trust funds. Other areas needing improvement are found in the executive summary.

In our opinion, due to the effect of the weaknesses described above, the CSU Stanislaus accounting and administrative controls in effect as of April 6, 2001, taken as a whole, were not sufficient to meet the objectives stated above.

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

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CASH RECEIPTS [7]

PASSWORD CONFIDENTIALITY [7]

Three separate instances were identified where campus personnel shared user identifications (IDs) or passwords or had access to the passwords of other personnel. Maintaining password confidentiality is necessary to reliably establish individual accountability for transactions and decreases the risk that misappropriation of funds may go undetected.

RECONCILIATIONS [8]

Certain fee reconciliations, uncleared collection reviews, and cash fund audits did not show the name of the preparer and reviewer and/or the date it was prepared and reviewed. Properly documented reconciliations assure accountability and reduce the risk of errors and irregularities going undetected.

ACCOUNTABILITY FOR PARKING PERMITS [10]

Strict control over parking permits was not maintained, including custody and usage controls. Ensuring timely and accurate accountability of parking revenue reduces campus exposure to loss from inappropriate acts.

SATELLITE CASHIERING [11]

Cash control weaknesses were found at three of the four satellite cashiering areas reviewed. This is a repeat finding from the last FISMA audit. Adequately separating duties and controlling cash receipts reduce campus exposure to loss from inappropriate acts.

ACCESS TO SAFES [13]

The combinations to two safes (one in physical education/athletics and another in procurement/property control) were not changed after personnel who knew the combinations left the university. Security and internal control over cash is increased when safe combinations are changed as required.

PURCHASING [13]

Campus procurement card administration was in need of improvement. Strengthening credit card purchase procedures decreases the risk of loss due to inappropriate acts.

REVOLVING FUND [14]

TRAVEL ADVANCES [14]

Long-term travel advances have been established for four employees. Timely clearance of travel advances positively impacts cash flow and increases the availability of funds for other purposes.

CHANGE FUNDS [15]

Independent cash counts for main cashiering change and petty cash funds were not conducted on a monthly basis, in accordance with campus policy and the schedule prescribed in State Administrative Manual (SAM) §8111.2. This is a repeat finding from the previous FISMA audit. Performing timely and independent counts of petty cash and change funds decreases campus exposure to loss from inappropriate acts.

CASH DISBURSEMENTS [16]

PAYMENT AUTHORIZATION [16]

Improper expenditure authorizations occurred when (1) signature records were not current and updated timely and (2) when payments were made without the explicit approval of individuals with signature authority. Approval of payments decreases campus exposure to loss from inappropriate acts.

CHECK WRITING [17]

An inadequate separation of duties exists in the check-writing process. Strengthening controls over the check-writing process decreases the risk of theft and misuse of state funds.

BANK RECONCILIATIONS [17]

Complete bank reconciliations were not being performed timely. The ability of the campus to detect errors and irregularities is increased when bank reconciliations are prepared and reviewed in a timely manner.

FISCAL INFORMATION TECHNOLOGY [18]

DATA CENTER POWER GENERATOR [18]

The data center does not have a generator for power backup, and there is not a single switch to cut off power in the event of an emergency. The addition of these two features to the campus configuration would improve capabilities during electrical power failures.

DISASTER RECOVERY PLANNING [19]

Although the campus had taken initial steps to develop an information technology disaster recovery plan, it did not contain sufficient information to ensure that data processing services can be recovered in a timely manner. Ensuring that the recovery plan is adequately documented and sufficiently addresses critical recovery areas will enable the campus to restore computer operations within a reasonable period.

TRUST ACCOUNTS [21]

ESTABLISHMENT OF TRUST ACCOUNTS [21]

Several trust accounts were established without using a source of money or for a purpose identified in Education Code §89721. When trust accounts are appropriately established, the University is in a stronger position when undergoing other state or external reviews.

TRUST AGREEMENT DOCUMENTATION [23]

Our review of 16 trust funds disclosed that campus trust agreements did not contain all of the required documentation. Adequately documented trust fund agreements reduce the risk of inappropriate expenditures.

TRUST FUND BALANCES [24]

Twelve trust accounts had negative fund balances greater than \$1,000, with five of those more than \$10,000. When positive trust fund balances are maintained, there is greater assurance of disbursements being made for the purposes established for the trusts.

TRUST EXPENDITURES [25]

Controls over trust fund expenditures required improvement. Obtaining proper expenditure authorizations for trust accounts helps protect the trust funds from losses related to inappropriate disbursements.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

PASSWORD CONFIDENTIALITY

Three separate instances were identified where campus personnel shared user identifications (IDs) or passwords or had access to the passwords of other personnel.

- ▶ In main cashiering, cashiers' user IDs and passwords were listed on a sheet of paper in the cashier team lead's desk.
- ▶ Staff in the parking management bureau (PMB) had different user IDs but shared a password.
- ▶ In financial services, the information technology (IT) consultant and the financial operations specialist shared a user ID and password for the check-writing software.

State Administrative Manual (SAM) §20050 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 cashier team lead stated that she was told during the previous audit that it would be acceptable to keep a list of user IDs and passwords locked in her desk drawer. The PMB supervisor stated that their financial services' technical support staff told her that she should share a password with her staff. The campus controller indicated that the separation of duties issues in the check-writing area have not been fully addressed.

Compromised password confidentiality prevents the campus from reliably establishing individual accountability for transactions and increases the risk that misappropriation of funds may go undetected.

Recommendation 1

We recommend that the campus:

- a. Prohibit and discontinue the practice of sharing user IDs and passwords.
- b. Communicate this policy and its benefits to all campus personnel at the time of their hire and at least annually thereafter.

Campus Response

We concur. Personnel in the cashiering and PMB offices have been directed to change their passwords and not share them with anyone. A memo regarding this matter will be issued to all personnel with access to the Banner Finance no later than November 30, 2001, and annually thereafter. New

employees will be given a copy of the latest memo, and security requirements will be discussed with them when they receive their system ID and password.

RECONCILIATIONS

Certain fee reconciliations, uncleared collection reviews, and cash fund audits did not show the name of the preparer and reviewer and/or the date it was prepared and reviewed.

Reviews/reconciliations with missing signatures or dates included the following:

	SIGNED BY PREPARER	DATED BY PREPARER	SIGNED BY REVIEWER	DATED BY REVIEWER
APPLICATION FEE RECONCILIATIONS				
Spring 2000	N	N	Y	N
Winter 2000	N	N	Y	N
Fall 1999	N	N	Y	N
STATE UNIV FEE RECONCILIATIONS				
Spring 2000	N	N	Y	N
Winter 2000	N	N	Y	N
Fall 1999	Y	N	Y	Y
UNCLEARED COLLECTIONS				
As of 2/28/01	Y	N	Y	N
As of 12/31/00	Y	N	Y	N
PETTY CASH AUDITS				
1/31/00 Dorm Change Fund	Y	N	N	N
2/1/00 Cashiers' Cash Box	Y	N	N	N
2/1/00 Cashiers' Petty Cash	Y	N	N	N

SAM §7908, *Signatures Required on Reconciliation*, requires all reconciliations to show the name of the preparer and reviewer, including the date the reconciliation was prepared and reviewed.

The accounts receivable team lead indicated she was unaware of this requirement.

When reconciliations are not signed and dated, accountability for them and for their timeliness is compromised. This increases the risk of errors and irregularities; it also increases the risk that errors and irregularities will go undetected.

Recommendation 2

We recommend that the campus ensure that preparers and reviewers of reconciliations sign and date the documentation.

Campus Response

We concur. A preparer and reviewer signature and date requirement will be added to all task manuals by December 31, 2001. All current year reconciliations will be reviewed and updated appropriately.

ACCOUNTABILITY FOR PARKING PERMITS

Strict control over parking permits was not maintained, including custody and usage controls.

When prenumbered parking permits are distributed to cashiers, the beginning and ending number of those permits are not noted. There is no reconciliation of permits sold with those distributed and those left unsold.

SAM §20050 states that there should be an established system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The cashier team lead stated that she was not aware of the need to perform and document this control.

Deficiencies in internal control over parking revenue increase campus exposure to loss from inappropriate acts.

Recommendation 3

We recommend that the campus:

- a. Record the beginning and ending parking permit numbers as they are distributed to cashiers.
- b. Reconcile, on a monthly basis, the permits received by cashiers with those sold and those left unsold.

Campus Response

We concur. Cashiers will immediately begin to record the beginning and ending parking permit numbers when they are received. The log will be signed and dated by the cashier receiving the permits and countersigned by the public safety employee delivering the permits. A reconciliation process is being formulated and will be implemented when we begin selling winter term permits. The first reconciliations will be completed by February 2002.

SATELLITE CASHIERING

Cash control weaknesses were found at three of the four satellite cashiering areas reviewed. This is a repeat finding from the last FISMA audit.

The satellite cashiering areas reviewed were those selected during the last audit. The selected locations were housing, parking, the enrollment services office, and the California State University (CSU), Stanislaus/Stockton off-campus center. The CSU Stanislaus/Stockton off-campus center did not have other weaknesses besides accountability for parking permits.

The cash control weaknesses found included inadequately separated cash receipting duties, inadequately maintained reconciliation records, and inconsistently applied transfer accountability procedures.

Housing

Control weaknesses noted at the housing office included:

- ▶ An inadequate separation of duties regarding housing collections and adjustments to accounts for students leaving university housing prior to the end of a term. This is a repeat finding.
- ▶ The housing office did not employ prenumbered temporary receipts when the computer-based accounting system was not available.
- ▶ Weak accountability through transfer receipts.

The supervisor of housing cashiering indicated that she was unaware that management review of adjustments was to occur before the transactions were submitted. She also indicated that she was not aware that prenumbered temporary receipts are to be used.

Parking

Cash control weaknesses noted at the parking office included the following:

- ▶ Checks received by the PMB are not being strictly endorsed by the end of each business day.
- ▶ A record of the reconciliation of daily parking permit tickets sales (machine and manual) is not maintained.

The PMB supervisor indicated that she overlooked this requirement when implementing required separation of duties. The supervising community safety officer stated that he was unaware of the need to document the reconciliation of daily parking permit tickets sales.

Enrollment Services

Accountability of cash for two cash drawers in enrollment services was not localized. The cash drawers are not under the strict control of a single employee and are used by any member of the office staff to provide change for students when required.

The assistant controller stated that enrollment services has steadfastly refused to open individual cash drawers.

SAM §8020 and §8021 require, in part:

- ▶ A separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee. This must occur from the time of receipt to the time of deposit.
- ▶ The establishment of localized accountability for cash.

SAM §8080 requires, in part, that receiving cash and making adjustments to accounts receivable records be performed by different individuals.

SAM §20050 requires a system of authorization, internal control, and record-keeping procedures that provide effective control over assets.

Inadequately separating duties and controlling cash receipts increase campus exposure to loss from inappropriate acts.

Recommendation 4

We recommend that the campus strengthen cash controls and ensure that they are appropriately and consistently applied at all satellite cashiering operations.

Campus Response

We concur. All satellite cashiering sites have written documents outlining appropriate cash handling procedures. The Assistant Controller will retrain all satellite cashiers to ensure written procedures are being followed. Supervisors will be advised of any weaknesses detected and what corrections must be implemented. This process will be completed by February 2002.

All satellite cashiering sites will be visited at least annually to ensure compliance with all written procedures.

ACCESS TO SAFES

The combinations to two safes (one in physical education/athletics and another in procurement/property control) were not changed after personnel who knew the combinations left the university.

SAM §8024 requires the changing of a department's safe combination when employees with knowledge of the combination leave the department.

The assistant controller stated that he did not recognize that the specific personnel terminations required changes to safe combinations.

Security and internal control over cash is compromised when safe combinations are not changed as required.

Recommendation 5

We recommend that the campus update termination procedures to include identification and change of safe combinations known to a terminated employee.

Campus Response

We concur. The two affected departments have been notified and directed to have the combinations on their safes changed. Each department is to forward documentation verifying the combination changes to Financial Services by November 2001.

A list of offices with safes is being given to payroll. If an employee leaves one of those departments, payroll will notify the Assistant Controller and he will ensure the combination for that safe is changed.

PURCHASING

Campus procurement card administration was in need of improvement.

Card Usage Controls

While procurement card reviews performed by the campus identified some significant issues, such as equipment and refreshment purchases, other documentation problems were not detected by the campus. Ten procurement card statements were reviewed in the audit, with 21 attributes tested overall. Six errors were found during this testing, for purchases that were not sufficiently documented. These included vendor email used for invoicing and no documented purpose for expenditures. One statement was accepted with an unauthorized approval signature.

Post-Audits

A portion of the post-audits of procurement card charges was not being accomplished monthly. While this is a repeat finding from the prior audit, the campus has made significant improvement in this area.

SAM §20050 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 accounts payable team leader indicated that continuing user education is always required. Mandatory follow-up training has been conducted for individuals who have made significant or unacceptable numbers of inappropriate purchases or violations of policy. Individuals who have had less significant or fewer policy breaches have been invited to optional follow-up training. The team leader also indicated that the staff assigned to perform detailed post-audits is still being trained.

The risk of unauthorized procurement card purchases is increased when control procedures contained in the procurement card handbook are not followed. There is an increased risk of loss from inappropriate acts when detailed post-audits of procurement card charges are not accomplished timely.

Recommendation 6

We recommend that the campus complete all portions of the monthly credit card statement audits on a timely basis.

Campus Response

We concur. The Procurement Office had one to two vacant positions throughout the last year. As a result, post-audits were delayed. They are now being performed on a timely basis. Documentation showing timely reconciliations will be forwarded by February 2002.

REVOLVING FUND

TRAVEL ADVANCES

Long-term travel advances have been established for four employees.

While not technically permanent, the practice of paying travel advances back at the end of one budget year and reissuing them at the beginning of the next year circumvents the discontinuance of permanent travel advances as published in SAM §8116.4, *Permanent Travel Advances For Meals, Incidentals, And Lodging Expenses (7/91)*.

SAM §8116.4 discontinued the issuance of permanent travel advances. SAM §8116.3, *Travel Advances*, and SAM §8117, *Travel Expenses*, require the deduction of monies owed from payroll warrants.

The controller indicated that the employees with advances are vocal regarding their need for assistance to ease job-related travel expense demands.

When travel advances are not cleared timely, there is a negative impact on cash flow and the related funds are unavailable for other purposes.

After conclusion of the audit fieldwork, the campus provided documentation that these travel advances had been returned.

CHANGE FUNDS

Independent cash counts for main cashiering change and petty cash funds were not conducted on a monthly basis, in accordance with campus policy and the schedule prescribed in State Administrative Manual (SAM) §8111.2. This is a repeat finding from the previous FISMA audit.

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 prescribed schedule and report them to the accounting office.

The assistant controller stated that the cash fund audits were not performed as scheduled because the person with this responsibility was remiss. Furthermore, adequate verification was not performed to ensure that counts were taking place as scheduled.

When independent counts of petty cash and change funds are not performed timely, the campus faces increased exposure to loss from inappropriate acts.

Recommendation 7

We recommend that the campus conduct timely cash counts of its change funds.

Campus Response

We concur. Timely petty cash and change fund counts are now being performed on a regular basis. The preparer and the reviewer sign documentation confirming the counts. Verification of timely counts will be sent in December 2001.

CASH DISBURSEMENTS

PAYMENT AUTHORIZATION

Improper expenditure authorizations occurred when (1) signature records were not current and updated timely and (2) when payments were made without the explicit approval of individuals with signature authority.

From a sample of 25 disbursements, we found that:

- ▶ Four accounts used to make payments to vendors did not have signature cards and signatures could not be checked before making payment.
- ▶ Three transactions were not signed as approved for payment.

SAM §20050 requires a system of internal control that provides effective management over assets.

The controller stated that campus-wide accounts have not been required to have signature cards completed. Accounts payable personnel recognize the vendors' invoices as valid and process payments accordingly. These accounts are used for properly executed contracts or are approved/administered by the associate vice president for financial services per the vice president's instructions.

Improper expenditure authorizations can occur when signature records are not current and updated timely or when payments are made without the explicit approval of individuals with signature authority for accounts.

Recommendation 8

We recommend that the campus strengthen procedures to assure that expenditures are authorized for payment.

Campus Response

We concur. We are in the process of updating procedures to ensure signatures are checked on all transaction documents. Signature cards are also being updated for all campus accounts. A database is being designed to track active campus accounts and authorized signers. All cards will be updated at least once a year. The database and procedures will be completed by January 2002.

CHECK WRITING

An inadequate separation of duties exists in the check-writing process.

The IT consultant generates checks, can modify the files used in printing checks, can print multiple copies of the same checks, and has physical access to printed checks.

SAM §8080.1, *Separation of Duties Automated Systems*, states that no one person shall operate mechanized equipment [the check printer] and control blank check stock.

SAM §20050, *Internal Control*, requires, in part, "...a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets." In addition, the IT consultant and his check-writing backup share a user ID and password on the check-writing system.

The financial services IT consultant and the controller indicated that separation of duties requirements have not been fully addressed.

When the check-writing process is not adequately controlled, accounts are subject to potential theft and misuse, resulting in the loss of state funds.

Recommendation 9

We recommend that the campus ensure that check stock be placed under the control of an individual who does not generate the electronic check-writing file and who does not initiate check printing. The duty to generate the check-writing file should also be segregated from any duties that initiate check printing.

Campus Response

We concur. Procedures are being reviewed and duties reassigned to address internal control weaknesses identified for the campus check-writing process. This will be completed by December 2001.

BANK RECONCILIATIONS

Complete bank reconciliations were not being performed timely.

Two of the three monthly bank statement reconciliations reviewed were completed more than 45 days after the related month end. At the time of the review (April 5, 2001), the last two monthly reconciliations, for December 2000 and January 2001, had not been performed.

SAM §7900 states that all reconciliations will be prepared monthly within 30 days of the preceding month.

The general accounting team lead indicated that the staff member who had been performing the duties is on maternity leave.

When bank reconciliations are not prepared and reviewed in a timely manner, the campus's ability to detect errors and irregularities is diminished, increasing the risk of loss of state funds.

Recommendation 10

We recommend that the campus prepare bank reconciliations timely.

Campus Response

We concur. The general accounting office is now fully staffed, and bank reconciliations are performed timely. Evidence will be sent no later than December 2001.

FISCAL INFORMATION TECHNOLOGY

DATA CENTER POWER GENERATOR

The data center does not have a generator for power backup, and there is not a single switch to cut off power in the event of an emergency.

The associate director for administrative technology stated that requests for a generator and single power-off switch have been made in the past, but campus management has chosen not to install the items due to higher budget priorities.

Executive Order (EO) No. 696 states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multihazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

Critical systems may be available for an undetermined period after an electrical power failure or local disaster. Additionally, a single shutoff switch minimizes the steps needed to cut off electrical power to the computers in the event of an electrical disaster within the data center.

Recommendation 11

We recommend that the campus:

- a. Install a single shutoff switch for the data center.
- b. Determine whether installing a generator is feasible.

Campus Response

We concur. The generator installation has been funded and a contractor engaged. The single shut-off switch for the data center will be installed at the same time as the generator. The work is currently scheduled to begin November 5, 2001.

DISASTER RECOVERY PLANNING

Although the campus had taken initial steps to develop an information technology disaster recovery plan, it did not contain sufficient information to ensure that data processing services can be recovered in a timely manner.

We noted that a written data processing disaster recovery plan existed, but it did not address all of the areas required by SAM §4843.1; specifically, contractual agreements, or other alternate facility provisions, had not been secured; the plan has not been tested; end-user recovery procedures have not been developed; and the backup tapes are only sent off-site on a weekly basis.

SAM §4841 requires state agencies to provide for the proper use and protection of its information assets by establishing appropriate policies and procedures for preserving the integrity and security of automated files and databases.

SAM §4843.1 requires each state agency to establish and maintain both an operational recovery plan to protect its information assets in the event of a disaster or serious disruption to its operations and the agency's plans for resuming operation following a disaster affecting those applications.

EO No. 524 states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multihazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The associate director for administrative technology stated that high-level plans were in place to acquire the necessary hardware and data recovery procedures were documented; however, cost constraints prohibited them from signing formal recovery contracts.

Without a detailed IT disaster recovery plan and corresponding business continuation procedures, the campus may not be able to restore computer operations within a reasonable time frame, which could severely impact the ability of the campus to conduct normal business operations. If backup tapes are not sent to a remote location on a frequent basis, then the campus could lose the ability to recover some critical information.

Recommendation 12

We recommend that the campus:

- a. Enhance the IT disaster recovery plan by adding detailed procedures for all sections outlined in SAM.
- b. Develop campus business continuity plans to sustain operations during an extended outage of data processing services.
- c. Add an assumptions list that should be shared with the business users to enhance their understanding of what services will and will not be restored as part of the IT recovery plan. The assumptions list should also reflect the status of data files at the time of restoration.
- d. Conduct a business impact assessment to determine the maximum length of time that the departments could operate without data processing services and identify the equipment and information that would be needed to sustain operations during an outage of data processing services.
- e. Develop written manual operating and recovery procedures for business units to assist operations during an extended outage of data processing services, such as manual recovery of up to one week of lost data and procedures for entering data collected manually during a prolonged system outage.
- f. Determine if weekly off-site storage of tapes, which represents a potential loss of up to one week's worth of data, is sufficient to adequately recover campus business operations. Consider more frequent off-site storage during critical processing times, such as online registration.

Campus Response

We concur.

- a. The campus disaster recovery plan will be reviewed for compliance with SAM and updated as necessary. This review and update will be completed by March 2002.
- b. The campus business continuity plan is incorporated in Section 5.3.4 of the current disaster recovery plan. Technology advance and commodity markets have further enhanced plan capability for rapid recovery. A copy of this portion of the campus plan will be forwarded in December 2001 under separate cover.
- c. An assumptions list addressing all the issues in this finding will be generated by March 2002.
- d. A survey of impact to departments will be developed and circulated with the results incorporated as an appendix in the disaster recovery plan. Additionally, a schedule for periodic review will be established. The survey and schedule will be completed by February 2002.

- e. Questions regarding current business unit manual recovery procedures will be included in the impact survey. These responses will be used to develop and incorporate manual recovery procedures in the disaster recovery plan. Procedures will be in place by March 2002.
- f. Off-site storage of tapes will be increased as necessary based on the results of the impact survey. Evidence of any change in procedure will be forwarded by March 2002.

TRUST ACCOUNTS

ESTABLISHMENT OF TRUST ACCOUNTS

Several trust accounts were established without using a source of money or for a purpose identified in Education Code §89721.

In our review of 16 trust accounts, we noted:

- ▶ Proceeds from the PMB trust (No. 758890) are used to support the public safety department. Under Education Code §89721, money received "...shall be used solely to meet the costs of providing these services." The PMB parking citation processing services have been extended to over 30 agencies, more than 20 of which are outside the CSU system.
- ▶ One trust account (No. 758962) receives proceeds from the sale of surveyed equipment. The General Fund was the likely source of funding used in the original purchase of this equipment.
- ▶ Miscellaneous reimbursements for services provided through the General Fund were redirected to three different trust accounts (Nos. 758101, 758113, and 758955).

Education Code §89721 states, in part:

A trust fund shall be legally established using monies received in connection with the following sources or purposes:

- (a) Gifts, bequests, devises, and donations.
- (b) Any student loan or scholarship fund program.
- (c) Advance payment for anticipated charges connected to federal grants or contracts.
- (d) Room, board, and similar expenses of students enrolled in international programs.
- (e) Cafeteria replacement funds.

- (f) Miscellaneous receipts subject to return upon approval of a proper application.
- (g) Fees and charges for services, materials, and facilities authorized by Section 89700 where these fees or charges are required of those persons who, at their option, use the services or facilities or are provided the material for which the fees or charges are made. Fees and charges so received and deposited shall be used solely to meet the costs of providing these services, materials, and facilities.
- (h) Fees for instructionally related activities as defined by the trustees and as authorized by Section 89700 and revenues derived from the conduct of the instructionally related activities.
- (i) Fees for parking, health facilities, or health services and for extension program, special sessions, and other self-supporting instructional programs.
- (j) Revenue received by the trustees from the California State Lottery Education Fund.
- (k) Monies received by the trustees for research, workshops, conferences, institutes, and special projects.

The university controller stated that trust accounts are established with the intent to help the campus community carry out related, integral university functions that are funded from outside sources. She further stated that she believes that all trust revenue sources did fall under the California Education Code Section 89721 categories.

Trust accounts should be established only if they meet the criteria in the Education Code. When trust accounts are not established according to the criteria, the university is exposed to public relations risks which, while difficult to quantify, are significant.

Recommendation 13

We recommend that the campus:

- a. Consult with the Office of the General Counsel as to the appropriateness of providing PMB services to agencies outside the CSU system.
- b. Close accounts which do not meet Education Code §89721 criteria and distribute remaining fund balances to appropriate accounts.

Campus Response

We concur. The Director for Public Safety and the Vice President for Business and Finance are consulting with Office of General Counsel to determine an appropriate course of action with regard to our PMB services. An appropriate course of action will be taken no later than March 2002.

All trust accounts are being reviewed to ensure compliance with Education Code Section 89721. Any account not in compliance will be closed, and remaining funds will be transferred to appropriate accounts. This review will be completed by February 2002.

TRUST AGREEMENT DOCUMENTATION

Our review of 16 trust funds disclosed that campus trust agreements did not contain all of the required documentation.

Specific areas of weakness include reporting requirements for trusts, identification of time constraints for them, and signatures of authorized individuals. Weaknesses identified were as follows:

- ▶ None of the accounts identified reporting requirements.
- ▶ No expiration date was indicated on 13 of the accounts.
- ▶ Twelve of the accounts were established on approval of someone who was not a superior of the authorized signers.
- ▶ Eleven of the accounts were missing approval signatures (there is space for three signatures on the agreement form).
- ▶ Five accounts had no restrictions on the use of money for administrative costs. For the other agreements, the wording tied to restrictions on the use of money for administrative costs is, "Interest earned on excess balances in trust accounts is transferred to a University wide account in lieu of charging overhead on account activity."
- ▶ In four instances, the trust agreements lacked documentation showing the disposition of unexpended funds.
- ▶ The purpose of four accounts was unclear.
- ▶ The source of funds is unclear for three of the trust accounts.
- ▶ Changes were made to the disposition of three accounts without the signature of authorized signers.
- ▶ Two trust agreements did not contain instructions for closing the account, and the instructions were unclear on two more.

SAM §19440.1 states that each trust account established shall be supported by documentation as to the type of trust, donor, or source of trust monies, 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 balance, and restrictions on the use of monies for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

The university controller stated that periodic maintenance is performed on all trust accounts. Campus departments do not always process requests for updated information timely.

The lack of required data within the trust agreements allows for speculation on the desires of the entity who established the account. Such speculation may lead to an inappropriate expenditure of funds.

Recommendation 14

We recommend that the campus take corrective action to assure that trust fund agreements contain the necessary supporting documentation.

Campus Response

We concur. The trust account application form has been revised and now contains all reporting requirements. New application forms are being sent to all trust account holders for completion. Completed forms are being reviewed for appropriate information and signatures. The review will be completed by January 2002.

TRUST FUND BALANCES

Twelve trust accounts had negative fund balances greater than \$1,000, with five of those more than \$10,000.

State University Administrative Manual (SUAM) §3710.01, states, in part, that each trust project must maintain a positive cash balance and a positive fund balance.

The general accounting team lead indicated that some account holders have been permitted to make expenditures in anticipation of receipt of funds. For other accounts, supporting funds had been placed in the wrong accounts, or other errors had occurred.

When positive trust fund balances are not maintained, there is an increased risk of disbursements for purposes other than those for which the trusts were established.

Recommendation 15

We recommend that the campus take steps to help ensure that positive trust balances are maintained.

Campus Response

We concur. All trust balances were positive as of June 30, 2001. Procedures are being revised to ensure balances are checked monthly. Departments will be notified immediately, and no transactions will be allowed against that account until the deficit balance is corrected. A report showing all positive balances and updated procedures will be sent in December 2001.

TRUST EXPENDITURES

Controls over trust fund expenditures required improvement.

We found that:

- ▶ Two of forty-four expenditures tested were made without signatory approval of authorized individuals identified on the trust account application.
- ▶ Three tested expenditures were made without adequate identification of the purpose of the transaction.
- ▶ Two expenditures were for purposes that were not authorized in the accounts' trust account applications.

SAM §19440.1 provides that each trust account established shall be supported by documentation of the persons authorized to withdraw or expend funds, their specimen signatures, and the purposes of fund expenditures.

The university controller stated that budget and expenditure responsibility are decentralized on the Stanislaus campus.

Failure to obtain proper expenditure authorizations for trust accounts exposes the funds to risk of loss from inappropriate disbursements.

Recommendation 16

We recommend that the campus take steps to help ensure trust fund expenditures are properly authorized and are for the purposes established for the trusts.

Campus Response

We concur. We will review current procedures and determine how to ensure expenditures and signatures are appropriate. New processes will be implemented by March 2002.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Marvalene Hughes	President
Julie Benevedes	General Accounting Team Lead
Frank Borrelli	Property Records Coordinator
Donevon Campiotti	Support Services Supervisor, Department of Public Safety
Carol Castillo	Director, Procurement Services
Pamela Craft	Assistant to the Director
Debra Da Rosa	Accounts Payable Team Leader
Becky Fields	Accounting Technician
Lori Fischer	Assistant to the Controller
Delfin Guillory	Accounts Receivable Team Lead
Doug Jones	Buyer/Payer
Tammy Horner	Accountant
Jim Hull	Associate Director for Administrative Technology
Carol Huth	Payroll Team Lead
Dosie Lewis	Team Lead, Cashier's Office
Nanako Lopshire	Accounts Payable Specialist, Auxiliary and Business Services
Jeannine Lucas	Admissions and Records Coordinator
Rudy Medina	Information Technology Consultant, Financial Services
Becka Paulsen	Controller
Kathleen Perea	Administrative Support Assistant, Department of Public Safety
Jim Phillips	Assistant Controller
Carrie Retemeyer	Database Administrator
Robert Rosas	Shipping and Receiving Technician
Christine Sanders	Supervisor, Parking Management Bureau
Mary Stephens	Vice President, Business and Finance
Bobbie Thomas	Student Services Specialist, Admissions and Records
Reggie Thompson	Captain, Department of Public Safety
Mary Vieira	Housing and Residential Life, Administrative Support Assistant

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the state of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.



CALIFORNIA STATE UNIVERSITY, STANISLAUS

801 West Monte Vista Avenue • Turlock, California 95382-0299

Office of the President

(209) 667-3201
FAX (209) 667-3206

October 31, 2001

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

RECEIVED
University Auditor

NOV 06 2001

The California State
University

Dear Larry:

The campus responses to the recent FISMA audit recommendations are enclosed. We appreciate the effort made to point out our internal control weaknesses and assure you that all areas of weakness will be fully addressed over the next few months.

Any questions concerning the response should be directed to Becka Paulsen, Assistant Vice President for Financial Services, at (209) 667-3379 or via email at bpaulsen@stan.csustan.edu.

Sincerely,

A handwritten signature in cursive script that reads 'Marvalene Hughes'.

Marvalene Hughes
President

Enc.

cc: Vice President Stephens
Assistant Vice President Paulsen

California State University, Stanislaus
Campus Responses to FISMA Audit Findings
Report Number 01-01
October 2001

Recommendation 1

We recommend that the campus:

- a. Prohibit and discontinue the practice of sharing user IDs and passwords.
- b. Communicate this policy and its benefits to all campus personnel at the time of their hire and at least annually thereafter.

Campus Response

We concur. Personnel in the cashiering and PMB offices have been directed to change their passwords and not share them with anyone. A memo regarding this matter will be issued to all personnel with access to the Banner Finance no later than November 30, 2001 and annually thereafter. New employees will be given a copy of the latest memo and security requirements will be discussed with them when they receive their system ID and password.

Recommendation 2

We recommend that the campus ensure that preparers and reviewers of reconciliations sign and date the document.

Campus Response

We concur. A preparer and reviewer signature and date requirement will be added to all task manuals by December 31, 2001. All current year reconciliations will be reviewed and updated appropriately.

Recommendation 3

We recommend that the campus:

- a. Record the beginning and ending parking permit numbers as they are distributed to cashiers.
- b. Reconcile, on a monthly basis, the permits received by cashiers with those sold and those left unsold.

Campus Response

We concur. Cashiers will immediately begin to record the beginning and ending parking permit numbers when they are received. The log will be signed and dated by the cashier receiving the permits and countersigned by the public safety employee delivering the permits. A reconciliation process is being formulated and will be implemented when we begin selling winter term permits. The first reconciliations will be completed by February 2002.

Recommendation 4

We recommend that the campus strengthen cash controls and ensure that they are appropriately and consistently applied at all satellite cashiering operations.

Campus Response

We concur. All satellite cashiering sites have written documents outlining appropriate cash handling procedures. The Assistant Controller will retrain all satellite cashiers to ensure written procedures are being followed. Supervisors will be advised of any weaknesses detected and what corrections must be implemented. This process will be completed by February 2002.

All satellite cashiering sites will be visited at least annually to ensure compliance with all written procedures.

Recommendation 5

We recommend that the campus update termination procedures to include identification and change of safe combinations known to a terminated person.

Campus Response

We concur. The two affected departments have been notified and directed to have the combinations on their safes changed. Each department is to forward documentation verifying the combination changes to Financial Services by November 2001.

A list of offices with safes is being given to payroll. If an employee leaves one of those departments, payroll will notify the Assistant Controller and he will ensure the combination for that safe is changed.

Recommendation 6

We recommend that the campus complete all portions of the monthly credit card statement audits on a timely basis.

Campus Response

We concur. The Procurement Office had one to two vacant positions throughout the last year. As a result post audits were delayed. They are now being performed on a timely basis. Documentation showing timely reconciliations will be forwarded by February 2002.

Recommendation 7

We recommend that the campus conduct timely cash counts of its change funds.

Campus Response

We concur. Timely petty cash and change fund counts are now being performed on a regular basis. The preparer and the reviewer sign documentation confirming the counts. Verification of timely counts will be sent in December 2001.

Recommendation 8

We recommend that the campus strengthen procedures to assure that expenditures are authorized for payment.

Campus Response

We concur. We are in the process of updating procedures to ensure signatures are checked on all transaction documents. Signature cards are also being updated for all campus accounts. A database is being designed to track active campus accounts and authorized signers. All cards will be updated at least once a year. The database and procedures will be completed by January 2002.

Recommendation 9

We recommend that the campus ensure that check stock be placed under the control of an individual who does not generate the electronic check-writing file and who does not initiate check printing. The duty to generate the check-writing file should also be segregated from any duties that initiate check printing.

Campus Response

We concur. Procedures are being reviewed and duties reassigned to address internal control weaknesses identified for the campus check writing process. This will be completed by December 2001.

Recommendation 10

We recommend that the campus prepare bank reconciliations timely.

Campus Response

We concur. The general accounting office is now fully staffed and bank reconciliations are performed timely. Evidence will be sent no later than December 2001.

Recommendation 11

We recommend that the campus:

- a. Install a single shutoff switch for the data center.
- b. Determine whether installing a generator is feasible.

Campus Response

We concur. The generator installation has been funded and a contractor engaged. The single shutoff switch for the data center will be installed at the same time as the generator. The work is currently scheduled to begin November 5, 2001.

Recommendation 12

We recommend that the campus:

- a. Enhance the IT disaster recovery plan by adding detailed procedures for all sections outlined in SAM.
- b. Develop campus business continuity plans to sustain operations during an extended outage of data processing services.
- c. Add an assumptions list that should be shared with the business users to enhance their understanding of what services will and will not be restored as

part of the IT recovery plan. The assumptions list should also reflect the status of data files at the time of restoration.

- d. Conduct a business impact assessment to determine the maximum length of time that the departments could operate without data processing services and identify the equipment and information that would be needed to sustain operations during an outage of data processing services.
- e. Develop written manual operating and recovery procedures for business units to assist operations during an extended outage of data processing services such as manual recovery of up to one week of lost data and procedures for entering data collected manually during a prolonged system outage.
- f. Determine if weekly off-site storage of tapes, which represents a potential loss of up to one week's worth of data, is sufficient to adequately recover campus business operations. Consider more frequent off-site storage during critical processing times such as online registration.

Campus Response

We concur.

- a. The campus disaster recovery plan will be reviewed for compliance with SAM and updated as necessary. This review and update will be completed by March 2002.
- b. The campus business continuity plan is incorporated in section 5.3.4 of the current disaster recovery plan. Technology advance and commodity markets have further enhanced plan capability for rapid recovery. A copy of this portion of the campus plan will be forwarded in December 2001 under separate cover.
- c. An assumptions list addressing all the issues in this finding will be generated by March 2002.
- d. A survey of impact to departments will be developed and circulated with the results incorporated as an appendix in the disaster recovery plan. Additionally, a schedule for periodic review will be established. The survey and schedule will be completed by February 2002.
- e. Questions regarding current business unit manual recovery procedures will be included in the impact survey. These responses will be used to develop and incorporate manual recovery procedures in the disaster recovery plan. Procedures will be in place by March 2002.
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Recommendation 13

- a. Consult with the Office of the General Counsel as to the appropriateness of providing PMB services to agencies outside the CSU system.
- b. Close accounts which do not meet Education Code Section 89721 criteria and distribute remaining fund balances to appropriate accounts.

Campus Response

We concur. The Director for Public Safety and the Vice President for Business and Finance are consulting with Office of General Counsel to determine an appropriate course of action with regard to our PMB services. An appropriate course of action will be taken no later than March 2002.

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notified immediately and no transactions will be allowed against that account until the deficit balance is corrected. A report showing all positive balances and updated procedures will be sent in December 2001.

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Campus Response

We concur. We will review current procedures and determine how to ensure expenditures and signatures are appropriate. New processes will be implemented by March 2002.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

November 27, 2001

CHICO

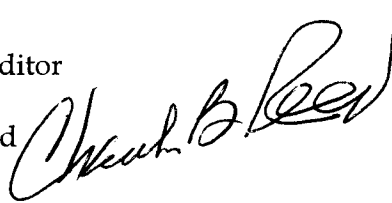
MEMORANDUM

DOMINGUEZ HILLS

TO: Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor


HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-01 on *FISMA* at
California State University, Stanislaus

LONG BEACH

LOS ANGELES

In response to your memorandum of November 27, 2001, I accept the response as submitted with the draft final report on *FISMA* at California State University, Stanislaus.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

cc: Marvalene Hughes, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS