

FISMA

**CALIFORNIA STATE UNIVERSITY,
HAYWARD**

**Report Number 02-03
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ABBREVIATIONS

Cal Poly	California Polytechnic State University
CSEA	California State Employees Association
CSU	California State University
CSU Hayward	California State University, Hayward
CTO	Compensatory Time Off
DRP	Disaster Recovery Plan
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
IT	Information Technology
MetWest	Metropolitan West Securities, Inc.
SAM	State Administrative Manual
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

INTRODUCTION

PURPOSE

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

- ▶ Cash receipts are processed in accordance with laws, regulations and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Physical computer controls are in place and functioning.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual (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 2000-2001 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 2001 to February 2002. 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, Hayward (CSU Hayward) campus from January 28, 2002, through March 21, 2002, and made a study and evaluation of the accounting and administrative control in effect as of March 21, 2002. 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 Hayward 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 revealed certain conditions which, in our opinion, would result in significant errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal controls over the following areas: cash receipts, accounts receivable, revolving fund, cash disbursements, payroll and personnel, fixed assets, fiscal information technology, 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 Hayward accounting and administrative control in effect as of March 21, 2002, taken as a whole, was 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 [8]

SATELLITE CASHIERING [8]

Cash control weaknesses were found at each of the four satellite cashiering areas visited. Adequately controlling cash receipts and separating duties reduce campus exposure to loss from inappropriate acts.

UNCLEARED COLLECTIONS [11]

An uncleared collections account ledger had not been established. Proper use of the uncleared collection account increase the accuracy of revenues and expenditures.

INFREQUENT REMITTANCES TO THE STATE TREASURER [11]

Remittances of monies to the State Treasury did not occur with the required frequency. Remittances of monies at prescribed frequencies increases interest income to the State.

ACCOUNTS RECEIVABLE [12]

AUXILIARY BILLINGS [12]

Billings to auxiliary organizations for amounts due and payable were not invoiced timely. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit. Presenting charges and collecting accounts receivable in a timely manner increase working capital and limit the potential for loss of revenue to the state.

COST RECOVERY POLICY [13]

The campus had not prepared a written cost allocation plan for auxiliary enterprise reimbursement of facilities, goods, and services funded by the General Fund. Adequate control over indirect costs ensures accurate and complete reimbursement to the General Fund, compliance with state policy, and increased working capital.

PURCHASING [14]

Campus procurement card controls did not ensure that appropriate supporting documentation was secured, appropriate purchases were made, or timely review and approval occurred. Sufficient procurement card controls reduce the risk of campus loss from inappropriate acts.

REVOLVING FUND [17]

INFREQUENT FUND COUNTS [17]

Independent cash counts of certain change and purchase funds did not always occur with the required frequency. This is a repeat finding from the prior two FISMA audits. Counts conducted at prescribed frequencies ensure adequate internal control over cash and reduce the risk of loss.

SALARY ADVANCES [18]

Controls over salary advances did not always ensure timely recovery. Sufficient control over salary advances ensures that revolving fund monies are available.

TRAVEL ADVANCES [18]

Controls over travel advances did not always ensure timely and complete submission of travel expense claims. This is a repeat finding from the prior two FISMA audits. Sufficient control over travel advances ensures the proper use and availability of revolving fund monies.

CASH DISBURSEMENTS [20]

Long outstanding checks were not processed/canceled in a timely manner. This is a repeat finding from the prior two FISMA audits. Canceling and remitting long outstanding checks reduce the risk of misappropriation and the effort needed to reconcile these items.

PAYROLL AND PERSONNEL [21]

EMPLOYMENT ELIGIBILITY VERIFICATION [21]

Federal Form I-9 employment eligibility verification was not always on file. Adequate control over employment eligibility verification procedures reduces the risk of noncompliance with federal employment regulations.

ADDITIONAL EMPLOYMENT [21]

Campus procedures for monitoring compliance with the California State University (CSU) additional employment policy did not sufficiently consider the impact on the time-base from sponsored program activities. Adequately monitoring faculty workload ensures compliance with the CSU additional employment policy and the collective bargaining agreement.

COMPENSATORY TIME OFF [22]

Payment of compensatory time off (CTO) was not timely. Timely payment for CTO ensures compliance with collective bargaining agreements.

UNDELIVERABLE SALARY WARRANTS [23]

Undeliverable salary warrants were not remitted to the State Controller's Office timely. Sufficient control of undeliverable salary warrants reduces the risk of misappropriated funds.

FIXED ASSETS [24]

PROPERTY ACCOUNTING [24]

Controls over property accounting did not ensure that property was properly valued. Sufficient control over property accounting reduces the risk of misstated property records.

PROPERTY SURVEY REPORTS [24]

Property survey reports were not properly completed. Proper completion of property survey reports strengthens accountability over disposal of state property.

FISCAL INFORMATION TECHNOLOGY [26]

DISASTER RECOVERY PLAN [26]

The information and computing services department had taken initial steps to develop an information technology (IT) disaster recovery plan (DRP) and to ensure that data would be available for recovery; however, the existing plan did not contain sufficient information to ensure that data processing services could be recovered in a timely manner. A detailed IT DRP and corresponding business continuation procedures improve the ability of the campus to restore computer operations within a reasonable time frame.

PROGRAM CHANGE CONTROL [28]

Existing practices did not prevent all persons with programming responsibilities from making unauthorized changes to production programs and data on the student information system. Internal controls are enhanced when programmers do not have the capability to make changes directly to production copies of programs and data along with authorized changes by management.

VENDOR ACCESS TO CASHNET [28]

The software vendor for the CashNet system had unlimited access to all programs and data including credit card information. Internal controls are enhanced when software vendors do not have access to sensitive data and the capability to make changes directly to production copies of programs and data without specific management authorization.

INVESTMENTS [29]

Controls over investments did not ensure timely planning and appropriate investments. Adequate control over investments decreases the risk of potential misunderstandings and improper investments, and improves earnings.

TRUST FUNDS [31]

Trust fund administration was in need of improvement. This is a repeat finding from the prior FISMA audit. Adequate trust fund administration decreases the risk of inappropriate expenditures and loss.

RECONCILIATIONS [33]

Reconciliations were not always prepared and complete; those that were prepared were not done so in a timely manner. This is a repeat finding from the prior two FISMA audits. Timely and complete preparation of reconciliations improves accountability and the campus' ability to detect errors and irregularities.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash control weaknesses were found at each of the four satellite cashiering areas visited.

The satellite cashiering locations reviewed included housing and residential life, public safety, duplicating services, and the Contra Costa campus.

Housing and Residential Life

- ▶ Checks received after the daily delivery to the main cashier's office were stored in a safe. However, such checks were not endorsed.
- ▶ A record of the date the combination was last changed and the names of persons knowing the present combination was not maintained for the safe. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.
- ▶ Housing fees were not reconciled to recorded receipts. This is a repeat finding from the prior FISMA audit.

The director of housing and residential life stated that the office did not have an endorsement stamp, the lack of documentation relating to the safe combination was an oversight, and a process to reconcile housing fees to recorded receipts was under development.

Public Safety

Daily parking machine permit ticket sales were not reconciled to recorded receipts. This is a repeat finding from the prior FISMA audit.

The interim chief of police stated that the reconciliation for parking receipts was not addressed due to a lack of staffing in public safety.

Duplicating Services

The duplicating services department sold prepaid cards in various denominations to operate certain photocopy machines. The cards were activated in the property and contracts office and sold in three locations, the cashier's office and two vending machines.

- ▶ Activation and custody functions for copy cards were not adequately controlled.
- ▶ Accountability for copy cards was not localized when two or more persons had access to the same copy card box in the cashier's office.

- ▶ Daily copy card sales were neither reconciled by type of receipts nor by copy card revenue.

The contracts manager stated that the controls over copy cards and the weaknesses identified above had not all been fully considered.

Contra Costa Campus

- ▶ Access to the cash processing area through an open door and entryway was not sufficiently restricted.
- ▶ Accumulated receipts in the computer lab were not always deposited within ten working days.
- ▶ Collections for transcripts and admissions were maintained in a horizontal desk tray, located on top of a countertop in the cashier's office, during business hours.
- ▶ Checks received were not restrictively endorsed by the end of the day.
- ▶ Unattended cash registers assigned to specific individuals were not always secured during break periods.
- ▶ The safe combination was not changed when staff changes or turnover occurred. Additionally, a written record was not maintained of employees with access to the safe or of the date when the combination was last changed.
- ▶ Three persons had access to the register for bookstore supplies in any given day without localized accountability. Additionally, the register was used to exchange coin and currency for other registers.

The interim dean of the Contra Costa campus stated that the controls over cashiering at the location were currently being evaluated, and that the campus did not have an endorsement stamp.

State Administrative Manual (SAM) §8023 and §8034.1 require checks and negotiable instruments be restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

SAM §8024 requires changing safe combinations when employees leave a department and maintaining a record listing the date the combination was last changed and the names of individuals knowing the present combination.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

SAM §8032.1 states that when funds are not in use, they should be locked for safekeeping. It further indicates that accumulated receipts of any amount will not remain undeposited for more than ten working days.

SAM §8021 requires that a separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

Inadequate controls and separation of duties over cash receipts increase campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Ensure that satellite cashiering locations have an endorsement stamp and that checks are restrictively endorsed by the end of the day.
- b. Change the combination to the safes at the housing and residential office and Contra Costa campus and maintain a record of individuals who have the combination.
- c. Perform regular detailed reconciliations of cash receipts to transaction source documents.
- d. Control access, handling, and accountability for copy cards.
- e. Limit access to the cash processing area at the Contra Costa campus.
- f. Collect and deposit all receipts within ten working days.
- g. Ensure proper accountability and safeguards over cash receipts.
- h. Evaluate the amount of the change fund at the Contra Costa campus to sufficiently meet operational needs.

Campus Response

We concur. The campus will strengthen satellite cashiering procedures to ensure that appropriate controls are followed.

Anticipated Completion Date: April 30, 2003

UNCLEARED COLLECTIONS

An uncleared collections account ledger had not been established.

Our review disclosed that uncleared collections totaled \$1,587,598 as of December 31, 2001. However, we were unable to establish the accuracy of this amount due to the lack of an uncleared collections account ledger.

SAM §10452 indicates that the uncleared collections account shows the amount of cash collections being checked to determine if they are to be accepted for a fund in the State Treasury or are to be refunded to payers; and a representation of the types of reimbursements that must be applied at the time they are ordered into the State Treasury.

The general accounting manager stated that a query for uncleared collections recorded in the newly implemented PeopleSoft system was under development.

Insufficient control over uncleared collections limits the campus' ability to detect errors and irregularities.

Recommendation 2

We recommend that the campus prepare a detailed ledger for uncleared collections.

Campus Response

We concur. Additional accounts have been added as necessary to account for uncleared collections.

Anticipated Completion Date: Completed

INFREQUENT REMITTANCES TO THE STATE TREASURER

Remittances of monies to the State Treasury did not occur with the required frequency.

Accumulated deposits of \$25,000 were not remitted by the first day of the week following the accumulation. During our review of remittances to the State Treasury, we noted the following frequencies and amounts remitted:

Month	Frequency by Days	Total Remittances
July 2001	2	\$ 930,000
August 2001	3	530,000
September 2001	1	500,000
October 2001	1	400,000
November 2001	3	11,685,381
December 2001	1	1,150,000

January 2002	3	2,450,000
February 2002	3	4,950,000

SAM §8091 requires accumulated deposits of \$25,000 to be remitted no later than the first day of the week following the accumulation to the State Treasury of all monies determined to be revenue, reimbursements, abatements, and operating revenue.

The general accounting manager stated that remitting monies to the State Treasury on a monthly basis is a long-standing practice.

Not remitting monies to the State Treasury at prescribed frequencies results in lost interest income and noncompliance with state policy.

Recommendation 3

We recommend that the campus strengthen controls to ensure that monies are remitted to the State Treasury at prescribed frequency intervals.

Campus Response

We concur. The campus will strengthen controls to ensure that monies are remitted to the State Treasury at prescribed frequency intervals.

Anticipated Completion Date: April 30, 2003

ACCOUNTS RECEIVABLE

AUXILIARY BILLINGS

Billings to auxiliary organizations for amounts due and payable were not invoiced timely. This is a repeat finding from the prior Financial Integrity and State Manager’s Accountability Act (FISMA) audit.

A review of ten invoices issued between October 2001 and January 2002 indicated that recharge billings to auxiliary organizations were invoiced between 96 to 195 days after the services were provided.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

The general accounting manager stated that the delayed billings were attributed to staffing issues.

Failure to timely invoice or recharge outstanding obligations due to the General Fund from other sources reduces working capital and the likelihood of collecting funds.

Recommendation 4

We recommend that the campus strengthen procedures to ensure that billings to auxiliary organizations are done so timely.

Campus Response

We concur. The campus will strengthen procedures to ensure that billings to auxiliary organizations are done so timely.

Anticipated Completion Date: April 30, 2003

COST RECOVERY POLICY

The campus had not prepared a written cost allocation plan for auxiliary enterprise reimbursement of facilities, goods, and services funded by the General Fund.

Executive Order (EO) No. 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, indicates that the campus is responsible for ensuring that auxiliary enterprises are charged for allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services funded from the General Fund. It further indicates that the cost allocations are required to be determined in accordance with a written cost allocation plan approved annually by the campus chief financial officer.

The assistant vice president and controller for business and financial services indicated that the deferral of cost allocation plan development was attributed to staffing issues.

Inadequate control over indirect costs increases the risk of inaccurate and incomplete reimbursement to the General Fund and reduced working capital.

Recommendation 5

We recommend that the campus prepare, approve, and implement a cost allocation plan.

Campus Response

We concur. The campus will prepare, approve, and implement a cost allocation plan.

Anticipated Completion Date: April 30, 2003

PURCHASING

Campus procurement card controls did not ensure that appropriate supporting documentation was secured, appropriate purchases were made, or timely review and approval occurred.

We noted that:

- ▶ The California State University, Hayward (CSU Hayward) *Procurement Credit Card Handbook* lacked certain provisions and documentation requirements:
 - Training for cardholders and approving officials did not require documentation.
 - A peer or subordinate was not prohibited from serving as an approving official to the cardholder.
 - A vendor data record (Form 204) was not required from vendors providing services paid by a credit card.
 - Retaining documentation to authorize a single purchase limit increase from \$1,000 to \$2,500 was not required. As a result, cardholder compliance could not be established within the authorized limit increase.
- ▶ A review of ten procurement card statements from November 2001 disclosed the following:
 - In one instance, a purchase was made for furniture without written approval from the purchasing manager.
 - In one instance, multiple purchases from a vendor were recorded on the same date that exceeded the single purchase limit.
 - In two instances, the procurement card documentation did not include an itemized receipt from a vendor with a liquor license or a hospitality expense approval form. In another instance, the procurement card documentation did not include a hospitality expense approval form for a purchase of food and beverage.
 - In two instances, a purchase was made for clothing without a description of a campus activity on the receipt.
 - In nine instances, a facsimile invoice was accepted without a certification of receipt of goods form.
 - In five instances, a facsimile sales order was accepted without a certification of receipt of goods form.

- In seven instances, an online confirmation sales order was accepted without a certification of receipt of goods form.

EO No. 760, *Procurement Cards*, dated October 16, 2000, indicates that campus procurement card policies must include provisions for management and staff training as part of the administration of a credit card program and a defined role of the approving official to ensure that a cardholder's subordinate or peer is not designated as approving official.

SAM §8422.190 requires a vendor data record (Form 204) to be kept on file for payments of at least \$600 to all nongovernmental entities and payments to individuals, medical corporations, and partnerships. If Form 204 is not completed by the vendor and the required data is not otherwise provided, the payment is to be reduced by 31 percent for federal withholding.

The CSU Hayward *Procurement Credit Card Handbook*, dated July 2001, indicates that:

- ▶ Written approval from the purchasing manager must be obtained prior to making a furniture purchase from a vendor other than prison industry authority (under *Restricted Procurement Credit Card Purchases*, page 4).
- ▶ Prohibited purchases include alcohol products, splitting of purchases to circumvent the dollar limitations, cellular telephones, and items which otherwise would be considered to be an inappropriate use of public funds such as personal items (under *Prohibited Use of Procurement Credit Card Purchases*, page 5).
- ▶ Cardholders are required to obtain an itemized receipt, invoice, or proof of purchase or complete the certification of receipt of goods form (under *Procurement Credit Card Receipt/Invoice*, page 9).
- ▶ Cardholders are instructed to forward the procurement card documentation to the approving official within five working days from receipt (under *Bank Statement*, page 10).
- ▶ Approving officials are instructed to review the procurement card documentation within three working days from receipt (under *Approving Official*, page 11).

The CSU Hayward *Hospitality Policy*, dated October 12, 2001, indicates that an expense approval form with justification of the expense must accompany any credit card statement with a description of the event indicating the number of employees and nonemployees.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The purchasing manager indicated that the campus considered facsimile invoices, sales orders, and online confirmation sales orders acceptable for payment. She further indicated that other instances of noncompliance with the campus procurement card policies were attributed to oversights by the cardholders. The procurement officer and risk manager stated that the campus hospitality policy

requiring an expense approval form was recently approved by the president and distributed to the vice presidents. He additionally stated that the vice presidents might not have circulated the policy to their respective areas.

Insufficient procurement card controls increase the risk of loss from inappropriate acts.

Recommendation 6

We recommend that the campus:

- a. Update the procurement credit card handbook to require the documentation of training for cardholders and approving officials.
- b. Establish credit card usage and control procedures which preclude peers or subordinates approving purchases.
- c. Evaluate the risks and benefits of allowing purchases of services to be made with credit cards.
- d. Establish procedures to ensure that appropriate insurance and a Form 204 are obtained prior to purchase, if purchases of services are to continue.
- e. Retain documentation to authorize single purchase limit increases.
- f. Establish procedures to prevent and detect splitting of purchases to avoid credit card limits and discourage inappropriate purchases.
- g. Strengthen supervision of monthly reconciliations of credit card charges to supporting documents as well as general timeliness of the reconciliations.

Campus Response

We concur. The campus will strengthen controls related to procurement cards.

Anticipated Completion Date: April 30, 2003

REVOLVING FUND

INFREQUENT FUND COUNTS

Independent cash counts of certain change and purchase funds did not always occur with the required frequency. This is a repeat finding from the prior two FISMA audits.

During our review of ten change and purchase funds, we noted that eight funds were not subject to independent counts as frequently as required in 2001.

SAM §8111.2 states that transfers of custody will be accomplished only after a personal audit of the fund has been made by the employees directly concerned and a receipt has been given by the newly assigned custodian to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting department. An employee other than the custodian of the change fund will count it 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

The accounts receivable manager indicated that the untimely counts of change and purchase funds were attributed to staffing shortages.

Not conducting independent cash counts at prescribed frequencies compromises internal controls and increases the risk of loss.

Recommendation 7

We recommend that the campus strengthen controls to ensure that cash funds are counted at prescribed frequency intervals.

Campus Response

We concur. The campus will strengthen controls to ensure that cash funds are counted at prescribed frequency intervals.

Anticipated Completion Date: April 30, 2003

SALARY ADVANCES

Controls over salary advances did not always ensure timely recovery.

As of December 31, 2001, we noted that outstanding salary advances over 90 days totaled \$37,177.

State University Administrative Manual (SUAM) §3813 indicates that salary advances to employees should be collected when a corrected or delayed warrant for the pay period involved is received with the time period for recovery of salary advances not to exceed 60 days.

The interim payroll officer stated that the instances of delinquent recovery were attributed to lack of timely collection efforts.

Insufficient control over salary advances increases the risk that revolving fund monies are not available.

Recommendation 8

We recommend that the campus strengthen controls over the recovery of salary advances.

Campus Response

We concur. The campus will strengthen controls over the recovery of salary advances.

Anticipated Completion Date: April 30, 2003

TRAVEL ADVANCES

Controls over travel advances did not always ensure timely and complete submission of travel expense claims. This is a repeat finding from the prior two FISMA audits.

Our review of ten travel advances issued between June and October 2001 disclosed that:

- ▶ In three instances, travel expense claims were not submitted within a month from the end of travel.
- ▶ In five instances, documentation accepted for payment included a receipt rather than an original that was not certified to show that records were checked to prevent duplicate payment.
- ▶ In four instances, travel claims did not substantiate the basis for conversion of foreign expenses into U.S. dollars through an independent source.
- ▶ In three instances, daily reimbursements for meals and incidentals exceeded California State University (CSU) guidelines.

- ▶ In one instance, the daily incidental allowance was reimbursed along with tips for services as business expenses.

Additionally, we noted 27 outstanding travel advances over 90 days old totaling \$20,454 as of December 31, 2001.

SAM §8116.2 requires the submittal of a properly prepared travel expense claim (TEC) to substantiate travel expenses as soon as possible after the trip or at least once a month and periodic statements sent no less frequently than bimonthly to notify employees who have travel advances but have not submitted a TEC to substantiate the travel expenses and/or have not returned any excess travel advance amount.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Memorandum Human Resources (HR) 2001-02, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated January 17, 2001, indicates that:

- ▶ Daily maximum reimbursement amounts for breakfast, lunch, dinner, and incidentals are \$9, \$12, \$20, and \$5, respectively.
- ▶ An additional incidental allowance may be claimed and includes expenses for laundry, cleaning, and pressing of clothes and fees and tips for services such as for waiters and baggage handlers.

The accounts payable manager stated that follow-up statements for outstanding travel expenses and documentation to support travel expense reimbursements need improvement.

Insufficient control over travel advances increases the risk that revolving fund monies are not available and may be expended for inappropriate purposes.

Recommendation 9

We recommend that the campus strengthen controls over travel advances and the substantiation of travel expenses.

Campus Response

We concur. The campus will strengthen controls over travel advances and the substantiation of travel expenses.

Anticipated Completion Date: April 30, 2003

CASH DISBURSEMENTS

Long outstanding checks were not processed/canceled in a timely manner. This is a repeat finding from the prior two FISMA audits.

Our review of the bank reconciliation, dated December 2001, disclosed 147 checks totaling \$48,235 older than one year with the oldest check dated April 2000.

SAM §8042 indicates that:

- ▶ Office revolving fund checks issued after January 1, 1998, outstanding for more than one year or unclaimed, for which the reimbursement to the office revolving fund has not been received, will be canceled and credited back to the office revolving fund.
- ▶ Office revolving fund and agency checks issued before January 1, 1998, outstanding over two years or unclaimed, will be canceled and the amount of the checks will be remitted to the Special Deposit Fund Unclaimed Trust Account.

The assistant controller indicated that the long outstanding checks were not processed in a timely manner as a result of staffing shortages.

Not processing long outstanding checks increases the risk of misappropriation and requires additional effort to review outstanding checks during the reconciliation process.

Recommendation 10

We recommend that the campus promptly process long outstanding checks as required by SAM §8042 and establish procedures to ensure that future long outstanding checks are processed in a timely manner.

Campus Response

We concur. The campus will promptly process long outstanding checks as required by SAM §8042 and establish procedures to ensure that future long outstanding checks are processed in a timely manner.

Anticipated Completion Date: April 30, 2003

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Federal Form I-9 employment eligibility verification was not always on file.

Our review of ten new hires between January and November 2001 disclosed that the campus did not have four of the required employment eligibility verifications on file. As a result, we were unable to determine compliance with federal employment regulations.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and noncitizens are required to complete Form I-9 employment eligibility verification at the beginning of employment.

The interim payroll officer stated that the documentation of the employment eligibility verification for certain employees was purged, and the campus was unable to provide the records.

Inadequate control over employment eligibility verification procedures increases the risk of noncompliance with federal employment regulations.

Recommendation 11

We recommend that the campus review and strengthen document retention procedures for employment eligibility verification.

Campus Response

We concur. The campus will review and strengthen document retention procedures for employment eligibility verification.

Anticipated Completion Date: April 30, 2003

ADDITIONAL EMPLOYMENT

Campus procedures for monitoring compliance with the California State University (CSU) additional employment policy did not sufficiently consider the impact on the time-base from sponsored program activities.

Specifically, the data from sponsored program activities was reported as compensation earned, as opposed to the actual time provided by faculty to a project.

CSU directive HR 2002-05, *Additional Employment Policy*, dated February 19, 2002, requires the campus to determine the extent of an employee's CSU workload prior to appointment to any position. It further indicates that additional employment limitations are based on time-base, not salary.

Articles 36.1 and 36.4 of the Collective Bargaining Agreement between the CSU Board of Trustees and the California Faculty Association, for July 1, 1998, through June 30, 2001, indicate that additional employment shall refer to any employment compensated by CSU, funded by the General Fund or nongeneral funds including CSU auxiliaries, that is in addition to the primary or normal employment of a faculty unit employee. The total additional employment of a faculty unit employee shall not exceed a total of twenty-five percent (25%) overage. Overage is calculated as a percentage of full-time workload or, when appropriate, full-time time-base.

The grants and contracts manager at the CSU Hayward Foundation stated that project directors are not required to report actual time provided to sponsored programs.

Inadequately monitoring faculty workload increases the risk of noncompliance with the CSU additional employment policy and collective bargaining agreement.

Recommendation 12

We recommend that the campus implement:

- a. Appropriate monitoring controls to ensure additional employment does not exceed the maximum workload.
- b. A requirement to report time provided by project directors to sponsored program activities.

Campus Response

We concur. The campus will implement controls to ensure additional employment does not exceed the maximum workload, including a requirement to report time provided by project directors to sponsored program activities.

Anticipated Completion Date: April 30, 2003

COMPENSATORY TIME OFF

Payment of compensatory time off (CTO) was not timely.

Prior to our inquiry, five employees represented by the California State Employees Association (CSEA) were not paid accrued CTO in excess of 120 hours as of December 31, 2001.

The Collective Bargaining Agreement with the CSEA for July 1, 1999, through June 30, 2002, Article 19.10, states that agencies shall pay employees in cash by February 1 of each year for CTO in excess of 120 hours as of December 31 of the prior year.

The former payroll officer stated that consideration and deferred payment of excess accrued CTO were attributed to an oversight.

Untimely payment for compensatory time off increases the risk of noncompliance with collective bargaining agreements.

Recommendation 13

We recommend that the campus strengthen procedures to ensure that excess CTO hours are paid in accordance with respective bargaining unit contracts.

Campus Response

We concur. The campus will strengthen procedures to ensure that excess CTO hours are paid in accordance with respective bargaining unit contracts.

Anticipated Completion Date: April 30, 2003

UNDELIVERABLE SALARY WARRANTS

Undeliverable salary warrants were not remitted to the State Controller’s Office timely.

During our fieldwork in February 2002, we noted that 141 salary warrants over 90 days old were in custody pending remittance to the State Controller’s Office. Specifically,

Aging	Number
3 to 6 months	27
6 to 7 months	23
9 to 12 months	20
1 to 2 years	22
2 to 3 years	38
Over 3 years	11
Total	141

SAM §8580.5 requires that salary warrants not delivered within 90 calendar days of receipt must be deposited and remitted to an escheat revenue account in the original fund that provides the resources to the state payroll revolving fund.

The former payroll officer indicated that staffing issues had resulted in undeliverable warrants not being deposited timely.

Insufficient control of undeliverable salary warrants increases the risk of misappropriated funds.

Recommendation 14

We recommend that the campus strengthen procedures to ensure that undelivered salary warrants are returned timely to the State Controller's Office.

Campus Response

We concur. The campus will strengthen procedures to ensure that undelivered salary warrants are returned timely to the State Controller's Office.

Anticipated Completion Date: April 30, 2003

FIXED ASSETS

PROPERTY ACCOUNTING

Controls over property accounting did not ensure that property was properly valued.

We noted that property was recorded into the property inventory records at purchase order value rather than actual cost.

SAM §8631 requires purchased assets to be recorded at cost. Cost is defined as the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

The contracts manager stated that recording property values at the purchase order amount is a long-standing practice.

Insufficient control over property accounting increases the risk of misstated property records.

Recommendation 15

We recommend that the campus record actual cost data including all incidental costs into its property inventory records.

Campus Response

We concur. The campus will record actual cost data, including material incidental costs, into its property inventory records.

Anticipated Completion Date: April 30, 2003

PROPERTY SURVEY REPORTS

Property survey reports were not properly completed.

Our review of 15 property survey reports from July 2001 through January 2002 disclosed that:

- ▶ In five instances, property was reported as stolen or lost and a completed public safety report was not attached to survey reports.
- ▶ In three instances, a sufficient audit trail specifying the final disposition of assets by donation or destruction was not maintained.

Additionally, the procedures for completing crime incident reports involving stolen campus equipment did not include forwarding the information to the department preparing property survey reports.

SAM §3520.3 indicates that:

- ▶ A properly executed property survey report must be completed when disposing of state-owned property.
- ▶ Missing property is to be investigated by the department of public safety.
- ▶ Property survey reports should include a section for a certification of disposition.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The contracts manager stated that the incomplete survey reports were due to oversight. The interim chief of police stated that the public safety department was not aware of the requirement to forward completed crime incident reports involving stolen campus equipment to the property office.

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

Recommendation 16

We recommend that the campus review and strengthen property survey procedures to ensure compliance with internal control requirements.

Campus Response

We concur. The campus will review and strengthen property survey procedures to ensure compliance with internal control requirements, taking the value of the surveyed property into consideration.

Anticipated Completion Date: April 30, 2003

FISCAL INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN

The information and computing services department had taken initial steps to develop an information technology (IT) disaster recovery plan (DRP) and to ensure that data would be available for recovery; however, the existing plan did not contain sufficient information to ensure that data processing services could be recovered in a timely manner.

Specifically, we noted that a written data processing DRP existed, but it did not currently address all of the areas required by SAM §4843.1. For example, the plan assumed that the California Polytechnic State University (Cal Poly), San Luis Obispo campus and Unisys would recover the data processing environments for the SIS+ student information system and PeopleSoft, respectively; the plan did not address recovery of the CashNet system; the plan had not been tested; and end-user recovery procedures had not been developed.

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 a plan to resume operation following a disaster affecting those applications.

EO No. 696, *Implementation of The California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of an emergency management system program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional emergency management system plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The server and network operations director stated that plans were in place to acquire the necessary hardware, but the plan did not take into consideration the recovery of systems and equipment that have been outsourced to the Cal Poly San Luis Obispo campus and Unisys and did not include recovery of the CashNet system.

Without a detailed IT DRP 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.

Recommendation 17

We recommend that the campus:

- a. Enhance the IT DRP by adding detailed procedures for all sections outlined in SAM; coordinate the recovery efforts of Unisys and Cal Poly San Luis Obispo with the CSU Hayward recovery plan, include provisions for the CashNet system, develop campus business continuity plans to sustain operations during an extended outage of data processing services; and 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.
- b. 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.g., email, telephone).
- c. 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 lost data and procedures for entering data collected manually during a prolonged system outage.
- d. Determine if frequency of off-site storage of tapes 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. The campus will:

- a. Enhance its disaster recover plan to include Unisys, Cal Poly San Luis Obispo, CASHNet, business continuity plans, and an assumptions list.
- b. Review industry standards and the steps necessary to restore lost data and sustain operations during an outage of data processing services.
- c. Develop written manual operating and recovery procedures.
- d. Review frequency of off-site storage tapes during critical processing times.

Anticipated Completion Date: April 30, 2003

PROGRAM CHANGE CONTROL

Existing practices did not prevent all persons with programming responsibilities from making unauthorized changes to production programs and data on the student information system.

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 information technology technical analyst stated that formal, written procedures are being developed which will include automatic audit logging of all changes made.

Since programmers have the capability to make changes directly to production copies of programs and data, management cannot be assured that all changes made are authorized and, consequently, that internal controls are not compromised.

Recommendation 18

We recommend that the campus restrict programmers from update access to production copies of programs and data or establish a detective control to identify programs that have been changed and require management to review such changes on a regular basis, as well as require specific written authorization from management for data access.

Campus Response

We concur. The campus will restrict programmers from update access to production copies of programs and data or establish a detective control to identify programs that have been changed and require management to review such changes on a regular basis, as well as require specific written authorization from management for data access.

Anticipated Completion Date: April 30, 2003

VENDOR ACCESS TO CASHNET

The software vendor for the CashNet system had unlimited access to all programs and data including credit card information.

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 student financial services officer stated that due to the limited number of information systems personnel and the need for vendors to perform contractual maintenance, total regulation of vendor activities is not possible. Ideally, adequate segregation of duties should prevent all persons responsible for program maintenance from moving such changes into the production environment.

The systems administrator stated that due to a contractual agreement with the vendor, the campus did not consider formal monitoring of their activities.

Since vendors have the capability to make changes directly to production copies of programs and data, management cannot be assured that all changes made are authorized and, consequently, that internal controls are not compromised. In addition, the campus does not have any authority over the hiring practices of the vendor organizations to which they are granting the unlimited access rights.

Recommendation 19

We recommend that the campus:

- a. Restrict vendors from directly updating production copies of programs and data, where possible, or consider disconnecting the phone modem or network access and permitting such access only after formal notification by the vendor that maintenance will be performed that includes a detailed list of changes to be made.
- b. Create a method to prohibit access to credit card information by vendor personnel.

Campus Response

We concur. We will work with the CASHNet software vendor to restrict access to credit card information, restrict access to the production environment, where possible, and develop procedures for notification of vendor maintenance and changes to be made.

Anticipated Completion Date: April 30, 2003

INVESTMENTS

Controls over investments did not ensure timely planning and appropriate investments.

Specifically, we noted that:

- ▶ A written strategy for determining when to move funds in and out of their short- and long-term investments had not been developed.
- ▶ Cash flows were last analyzed in June 2001.
- ▶ Securities totaling \$200,000 were purchased with trust funds through investment companies other than Metropolitan West Securities, Inc. (MetWest).

SAM §20050 indicates that there should be established system of practices to be followed in the performance of duties and functions and that it represents a control weakness if policy and procedure manuals are either not up to date or do not exist.

SAM §8099 states that cash flow management practices are an important factor in permitting the state to realize the most interest from the dollars that flow through its system.

Code Memorandum Accounting Department 97-08, *Investment Manual for California State University Trust Funds*, dated July 15, 1997, states that all trust fund money, pending disbursement for its intended purpose, will be managed by MetWest in custodial accounts in the name of the California State University or individual campuses.

The assistant controller stated that the campus strategy for determining when to move funds in and out of their short- and long-term investments has not been documented by the investment committee. He further indicated that the deferred cash flow analysis was due to staffing issues. The budget officer stated that the campus was not aware of the systemwide requirement to exclusively invest trust fund money with MetWest.

Inadequate control over investments increases the risk of potential misunderstandings and improper investments and may reduce earnings.

Recommendation 20

We recommend that the campus:

- a. Prepare and implement a written strategy for determining when to move funds in and out of their short- and long-term investments.
- b. Analyze, forecast, and document cash flow activity on a monthly basis.
- c. Modify campus policy to ensure that MetWest manages all investments of trust fund money.
- d. Obtain approval from the chancellor's office business and finance department to maintain the security investments as is or transfer them to MetWest.

Campus Response

We concur. The campus will:

- a. Prepare and implement a written strategy for determining when to move funds in and out of their short- and long-term investments.
- b. Analyze, forecast, and document cash flow activity on a monthly basis.
- c. Modify campus policy to ensure that MetWest manages all investments of trust fund money.

- d. Obtain approval from the chancellor's office business and finance department to maintain the security investments as is or transfer them to MetWest.

Anticipated Completion Date: April 30, 2003

TRUST FUNDS

Trust fund administration was in need of improvement. This is a repeat finding from the prior FISMA audit.

Our review of 15 trust projects disclosed that:

- ▶ In one instance, a trust account did not have an agreement on file.
- ▶ In five instances, trust account documentation did not describe the source of money.
- ▶ In three instances, trust account documentation did not describe any time constraints.
- ▶ In one instance, trust account documentation did not describe the individuals authorized to expend funds nor include signature specimens.
- ▶ In six instances, trust account documentation did not describe reporting requirements.
- ▶ In four instances, trust account documentation did not describe instructions for closing the account and the disposition of any unexpended balance.
- ▶ In two instances, trust account documentation did not describe whether the account was subject to administrative overhead.
- ▶ In eight instances, trust account documentation did not include the approval from the accounting office.
- ▶ Our review of trust account balances as of June 30, 2001, disclosed that 12 projects had negative cash balances ranging from \$125 to \$203,474.
- ▶ Our review of 13 trust expenditures disclosed that approval of six expenditures was not provided by an authorized individual, and three expenditures did not meet the criteria for disbursement as described in the trust agreement.
- ▶ In 13 instances, a budget submitted by the trust project administrator for fiscal year 2001-2002 was not on file.
- ▶ In two instances, a budget was not prepared until January 2002 for fiscal year 2001-2002.

SAM §19440.1 indicates 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.

SUAM §3710.01 indicates that each trust project must maintain a positive cash balance and a positive fund balance.

SUAM §3710.04 indicates a budget submitted by person designated in the trust agreement as project coordinator or account administrator, reviewed by appropriate campus officials, and approved by the president or designee assists in the management of a trust project.

The assistant controller stated that the campus requested project administrators to update their respective trust agreements and provide an annual budget. He further stated that the negative cash balances were permitted due to the related receivable balances exceeding the cash shortages.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss due to poor trust fund management.

Recommendation 21

We recommend that the campus:

- a. Strengthen the controls necessary to maintain complete trust fund agreements.
- b. Improve oversight procedures to ensure that all trust projects maintain positive fund balances.
- c. Strengthen controls to ensure expenditures are appropriately approved and meet the criteria for disbursement as stated in the trust agreements.
- d. Require that trust project administrators prepare an annual budget for each trust project.

Campus Response

We concur. The campus will strengthen trust accounting procedures and controls to ensure that complete trust fund agreements are maintained, trust projects maintain positive fund balances, expenditures are appropriate and properly approved, and that an annual budget is prepared for each trust project.

Anticipated Completion Date: April 30, 2003

RECONCILIATIONS

Reconciliations were not always prepared and complete; those that were prepared were not done so in a timely manner. This is a repeat finding from the prior two FISMA audits.

During our review of reconciliations in February 2002, we noted that:

- ▶ The most recent revolving fund reconciliation was for June 2001. In addition, the cash in subrevolving funds was not reconciled to the amount established for the month ending June 30, 2001. The revolving fund reconciliation reported cash on hand of \$7,689 with the assigned change and cash purchase funds totaling \$6,700.
- ▶ The most recent reconciliation of agency accounts to the State Controller's balances was for June 2001.
- ▶ Bank reconciliations for October through December 2001 were not reconciled within 30 days of the preceding month. Additionally, the list of reconciling deposits for the bank reconciliation for December 2001 included six amounts totaling \$17,730 dated between July and September 2001.
- ▶ Application fee reconciliations for September through November 2001 were not completed until December 4, 2001, and January 29, 2002, respectively.
- ▶ State university fees reconciliations for the 2001 summer and fall academic terms were not completed until November 2001 and January 2002, respectively. The census dates for the summer and fall academic terms were in June 2001 and October 2001, respectively.
- ▶ Fixed assets reconciliations for July through September 2001 and October through December 2001 were not completed until November 2001 and January 2002, respectively.
- ▶ Balances reported on subsidiary accounts receivable aging schedules were not being reconciled to the general 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 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.

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

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

SAM §7976 requires that revenue and expenditure accounts must be reconciled monthly and failure to reconcile with the State Controller on a monthly basis can lead to major problems that may be insurmountable.

SAM §7967 requires that departments reconcile their end of month bank and centralized State Treasury system account balances monthly.

SUAM §3825.01 requires that a reconciliation of applications for admission to fees received be prepared one month after the end of the academic term being reconciled.

SAM §7969 requires that agencies reconcile equipment expenditures with the property ledger at the end of each month.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The assistant controller stated that the issues identified were mainly due to staffing shortages, year-end close, and oversights. He further stated that the reconciliation of accounts receivable records was not completed due to the interface of multiple accounting systems.

Not completing reconciliations in a timely and complete manner compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 22

We recommend that the campus strengthen procedures to ensure that reconciliations are completed in a timely manner and reconciling items are adequately supported and promptly resolved.

Campus Response

We concur. The campus will strengthen procedures to ensure that reconciliations are completed in a timely manner and reconciling items are adequately supported and promptly resolved.

Anticipated Completion Date: April 30, 2003

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Norma Rees	President
John Abbey	Assistant Controller
Madeleine Apple	Student Technical Coordinator
Jack Azevedo	Student Financial Services Officer
Yvonne Brandenburg	Accounts Receivable Manager
Stanley Clark	Deputy Provost
Paula Compton	Accounts Payable Manager
Frank Correia	Server and Network Operations Director, Information and Computing Services
Jane Cross	Interim Payroll Officer
Thomas Dixon	Systems Administrator, Institutional Research and Analysis
Diane Dolan	Cashier's Supervisor
Kris Erway	Budget Officer
Karen Esteller	General Accounting Manager
Bette Felton	Interim Dean, Contra Costa Campus
John Flores	Former Office Manager, Human Resources
Armando Gonzales	Associate Vice President, Academic Resources and Administration
Elizabeth Graw	Director, University Advancement
JoAnne Hill	Human Resources Staff Functional Lead, CMS Project
Neal Hoss	Assistant Vice President/Controller, Business and Financial Services
Gladys Janer	Administrative Assistant, Business and Financial Services
Nyassa Love	CMS PeopleSoft Project Manager
Roland Krug	Interim Chief of Police
Regina Metoyer	Director, Housing and Residential Life
Richard Metz	Vice President, Administration and Business Affairs
Precious Perry	Administrative Services Coordinator, Contra Costa Campus
Kathy Pitta	Property Clerk
Jim Remer	Information Technology Technical Analyst, CMS Project
Wes Scheibly	Former Payroll Officer
Madeline Scott	Contracts Manager
Jodi Servatius	Interim Vice President, University Advancement
Marilyn Stager	Controller, CSU Hayward Foundation
Eric Thompson	Procurement Officer/Risk Manager
Jayne Truong	Accountant
Cynthia Vinson	Grants and Contracts Manager, CSU Hayward Foundation
Paula Susanne Wittler	Purchasing Manager
Roger Zeedik	Associate Director, Human Resources

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, HAYWARD

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Office of the President

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**RECEIVED
UNIVERSITY AUDITOR**

OCT 23 2002

**THE CALIFORNIA STATE
UNIVERSITY**

October 23, 2002

Mr. Larry Mandel
 University Auditor
 The California State University
 401 Golden Shore
 Long Beach, CA 90802

**Subject: Campus Response to Recommendations of FISMA Audit 02-03
 California State University, Hayward**

Dear Mr. Mandel,

Please find enclosed California State University, Hayward's response to the recommendations resulting from our FISMA Audit 02-03. For each recommendation, we have included a corrective action plan and an anticipated date for implementation.

We appreciate the efforts of you and your staff during the process and the professional manner in which the audit and the related special investigation were performed.

Sincerely yours,

A handwritten signature in cursive script that reads "Norma S. Rees".

Norma S. Rees
 President

Enclosure

cc: Chancellor Reed
 Vice President Metz

CASH RECEIPTS

SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Ensure that satellite cashiering locations have an endorsement stamp and that checks are restrictively endorsed by the end of the day.
- b. Change the combination to the safes at the housing and residential office and Contra Costa campus and maintain a record of individuals who have the combination.
- c. Perform regular detailed reconciliations of cash receipts to transaction source documents.
- d. Control access, handling, and accountability for copy cards.
- e. Limit access to the cash processing area at the Contra Costa campus.
- f. Collect and deposit all receipts within ten working days.
- g. Ensure proper accountability and safeguards over cash receipts.
- h. Evaluate the amount of the change fund at the Contra Costa campus to sufficiently meet operational needs.

Campus Response

We concur. The campus will strengthen satellite cashiering procedures to ensure that appropriate controls are followed.

Anticipated Completion Date: April 30, 2003

UNCLEARED COLLECTIONS

Recommendation 2

We recommend that the campus prepare a detailed ledger for uncleared collections.

Campus Response

We concur. Additional accounts have been added as necessary to account for uncleared collections.

Anticipated Completion Date: Completed

INFREQUENT REMITTANCES TO THE STATE TREASURER

Recommendation 3

We recommend that the campus strengthen controls to ensure that monies are remitted to the State Treasury at prescribed frequency intervals.

Campus Response

We concur. The campus will strengthen controls to ensure that monies are remitted to the State Treasury at prescribed frequency intervals.

Anticipated Completion Date: April 30, 2003

ACCOUNTS RECEIVABLE

AUXILIARY BILLINGS

Recommendation 4

We recommend that the campus strengthen procedures to ensure that billings to auxiliary organizations are done so timely.

Campus Response

We concur. The campus will strengthen procedures to ensure that billings to auxiliary organizations are done so timely.

Anticipated Completion Date: April 30, 2003

COST RECOVERY POLICY

Recommendation 5

We recommend that the campus prepare, approve, and implement a cost allocation plan.

Campus Response

We concur. The campus will prepare, approve, and implement a cost allocation plan.

Anticipated Completion Date: April 30, 2003

PURCHASING

Recommendation 6

We recommend that the campus:

- a. Update the procurement credit card handbook to require the documentation of training for cardholders and approving officials.
- b. Establish credit card usage and control procedures which preclude peers or subordinates approving purchases.
- c. Evaluate the risks and benefits of allowing purchases of services to be made with the credit cards.
- d. Establish procedures to ensure that appropriate insurance and a Form 204 are obtained prior to purchase, if purchases of services are to continue.
- e. Retain documentation to authorize single purchase limit increases.
- f. Establish procedures to prevent and detect splitting of purchases to avoid credit card limits and discourage inappropriate purchases.
- g. Strengthen supervision of monthly reconciliations of credit card charges to supporting documents as well as general timeliness of the reconciliations.

Campus Response

We concur. The campus will strengthen controls related to procurement cards.

Anticipated Completion Date: April 30, 2003

REVOLVING FUND

INFREQUENT FUND COUNTS

Recommendation 7

We recommend that the campus strengthen controls to ensure that cash funds are counted at prescribed frequency intervals.

Campus Response

We concur. The campus will strengthen controls to ensure that cash funds are counted at prescribed frequency intervals.

Anticipated Completion Date: April 30, 2003

SALARY ADVANCES**Recommendation 8**

We recommend that the campus strengthen controls over the recovery of salary advances.

Campus Response

We concur. The campus will strengthen controls over the recovery of salary advances.

Anticipated Completion Date: April 30, 2003

TRAVEL ADVANCES**Recommendation 9**

We recommend that the campus strengthen controls over travel advances and the substantiation of travel expenses.

Campus Response

We concur. The campus will strengthen controls over travel advances and the substantiation of travel expenses.

Anticipated Completion Date: April 30, 2003

CASH DISBURSEMENTS**Recommendation 10**

We recommend that the campus promptly process long outstanding checks as required by SAM §8042 and establish procedures to ensure that future long outstanding checks are processed in a timely manner.

California State University, Hayward
Responses to FISMA Audit 02-03

Campus Response

We concur. The campus will promptly process long outstanding checks as required by SAM §8042 and establish procedures to ensure that future long outstanding checks are processed in a timely manner.

Anticipated Completion Date: April 30, 2003

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Recommendation 11

We recommend that the campus review and strengthen document retention procedures for employment eligibility verification.

Campus Response

We concur. The campus will review and strengthen document retention procedures for employment eligibility verification.

Anticipated Completion Date: April 30, 2003

ADDITIONAL EMPLOYMENT

Recommendation 12

We recommend that the campus implement:

- a. Appropriate monitoring controls to ensure additional employment does not exceed the maximum workload.
- b. A requirement to report time provided by project directors to sponsored program activities.

Campus Response

We concur. The campus will implement controls to ensure additional employment does not exceed the maximum workload, including a requirement to report time provided by project directors to sponsored program activities.

Anticipated Completion Date: April 30, 2003

COMPENSATORY TIME OFF

Recommendation 13

We recommend that the campus strengthen procedures to ensure that excess CTO hours are paid in accordance with respective bargaining unit contracts.

Campus Response

We concur. The campus will strengthen procedures to ensure that excess CTO hours are paid in accordance with respective bargaining unit contracts.

Anticipated Completion Date: April 30, 2003

UNDELIVERABLE SALARY WARRANTS

Recommendation 14

We recommend that the campus strengthen procedures to ensure that undelivered salary warrants are returned timely to the State Controller's Office.

Campus Response

We concur. The campus will strengthen procedures to ensure that undelivered salary warrants are returned timely to the State Controller's Office.

Anticipated Completion Date: April 30, 2003

FIXED ASSETS

PROPERTY ACCOUNTING

Recommendation 15

We recommend that the campus record actual cost data including all incidental costs into its property inventory records.

Campus Response

We concur. The campus will record actual cost data, including material incidental costs, into its property inventory records.

Anticipated Completion Date: April 30, 2003

PROPERTY SURVEY REPORTS

Recommendation 16

We recommend that the campus review and strengthen property survey procedures to ensure compliance with internal control requirements.

Campus Response

We concur. The campus will review and strengthen property survey procedures to ensure compliance with internal control requirements, taking the value of the surveyed property into consideration.

Anticipated Completion Date: April 30, 2003

FISCAL INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN

Recommendation 17

We recommend that the campus:

- a. Enhance the IT DRP by adding detailed procedures for all sections outlined in SAM; coordinate the recovery efforts of Unisys and Cal Poly San Luis Obispo with the CSU Hayward recovery plan, include provisions for the CashNet system, develop campus business continuity plans to sustain operations during an extended outage of data processing services; and 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.
- b. 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.g., email, telephone).
- c. 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 lost data and procedures for entering data collected manually during a prolonged system outage.

- d. Determine if frequency of off-site storage of tapes 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. The campus will:

- a. Enhance its disaster recover plan to include Unisys, Cal Poly San Luis Obispo, CASHNet, business continuity plans, and an assumptions list.
- b. Review industry standards and the steps necessary to restore lost data and sustain operations during an outage of data processing services.
- c. Develop written manual operating and recovery procedures.
- d. Review frequency of off-site storage tapes during critical processing times.

Anticipated Completion Date: April 30, 2003

PROGRAM CHANGE CONTROL

Recommendation 18

We recommend that the campus restrict programmers from update access to production copies of programs and data or establish a detective control to identify programs that have been changed and require management to review such changes on a regular basis, as well as require specific written authorization from management for data access.

Campus Response

We concur. The campus will restrict programmers from update access to production copies of programs and data or establish a detective control to identify programs that have been changed and require management to review such changes on a regular basis, as well as require specific written authorization from management for data access.

Anticipated Completion Date: April 30, 2003

VENDOR ACCESS TO CASHNET

Recommendation 19

We recommend that the campus:

- a. Restrict vendors from directly updating production copies of programs and data, where possible, or consider disconnecting the phone modem or network access and permitting such access only after formal notification by the vendor that maintenance will be performed that includes a detailed list of changes to be made.
- b. Create a method to prohibit access to credit card information by vendor personnel.

Campus Response

We concur. We will work with the CASHNet software vendor to restrict access to credit card information, restrict access to the production environment, where possible, and develop procedures for notification of vendor maintenance and changes to be made.

Anticipated Completion Date: April 30, 2003

INVESTMENTS

Recommendation 20

We recommend that the campus:

- a. Prepare and implement a written strategy for determining when to move funds in and out of their short and long-term investments.
- b. Analyze, forecast, and document cash flow activity on a monthly basis.
- c. Modify campus policy to ensure that MetWest manages all investments of trust fund money.
- d. Obtain approval from the chancellor's office business and finance department to maintain the security investments as is or transfer them to MetWest.

Campus Response

We concur. The campus will:

- a. Prepare and implement a written strategy for determining when to move funds in and out of their short and long-term investments.
- b. Analyze, forecast, and document cash flow activity on a monthly basis, and
- c. Modify campus policy to ensure that MetWest manages all investments of trust fund money.
- d. Obtain approval from the Chancellor's Office business and finance department to maintain the security investments as is or transfer them to MetWest.

Anticipated Completion Date: April 30, 2003

TRUST FUNDS

Recommendation 21

We recommend that the campus:

- a. Strengthen the controls necessary to maintain complete trust fund agreements.
- b. Improve oversight procedures to ensure that all trust projects maintain positive fund balances.
- c. Strengthen controls to ensure expenditures are appropriately approved and meet the criteria for disbursement as stated in the trust agreements.
- d. Require that trust project administrators prepare an annual budget for each trust project.

Campus Response

We concur. The campus will strengthen trust accounting procedures and controls to ensure that complete trust fund agreements are maintained, trust projects maintain positive fund balances, expenditures are appropriate and properly approved, and that an annual budget is prepared for each trust project.

Anticipated Completion Date: April 30, 2003

RECONCILIATIONS

Recommendation 22

We recommend that the campus strengthen procedures to ensure that reconciliations are completed in a timely manner and reconciling items are adequately supported and promptly resolved.

Campus Response

We concur. The campus will strengthen procedures to ensure that reconciliations are completed in a timely manner and reconciling items are adequately supported and promptly resolved.

Anticipated Completion Date: April 30, 2003



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 14, 2002

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS


FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 02-03 on *FISMA*,
California State University, Hayward

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of November 14, 2002, I accept the response as submitted with the draft final report on *FISMA*, California State University, Hayward.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. Richard Metz, Vice President, Administration and Business Affairs
Dr. Norma S. Rees, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS