

FISMA

**CALIFORNIA STATE UNIVERSITY,
SACRAMENTO**

Report Number 02-08

May 29, 2003

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ABBREVIATIONS

CSU	California State University
CSUS	California State University, Sacramento
DRP	Disaster Recovery Plan
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
IT	Information Technology
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 (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 2001-2002 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 April 2002 to October 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 CSU Sacramento (CSUS) campus from October 21, 2002, through December 19, 2002, and made a study and evaluation of the accounting and administrative control in effect as of December 19, 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.

CSUS 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, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal controls over the following areas: cashiering/cash receipts, revolving fund, cash disbursements, fiscal information technology, and trusts. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, the accounting and administrative control at CSUS in effect as of December 19, 2002, taken as a whole, was sufficient to meet the objectives stated above.

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

EXECUTIVE SUMMARY

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

CASH RECEIPTS [7]

Cash control weaknesses were found at main cashiering and two of the four satellite cashiering locations visited. Adequate control over cash receipts reduces campus exposure to loss from inappropriate acts.

PURCHASING [8]

Campus procurement card controls did not ensure that purchases were only made by the cardholder and properly supported. Sufficient procurement card control reduces the risk of loss from inappropriate acts.

REVOLVING FUND [9]

Revolving fund reconciliations were not completed in a timely manner. Performance of timely reconciliations improves the campus' ability to promptly detect errors and irregularities.

CASH DISBURSEMENTS [10]

PROMPT PAYMENT [10]

Invoices were not always promptly paid. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) review. Adequate control over cash disbursements reduces the risk of noncompliance with the *Prompt Payment Act*.

OUTSTANDING CHECKS [11]

Long-outstanding checks were not canceled/processed in a timely manner. Promptly canceling long-outstanding checks reduces the risk of misappropriation and the effort needed to reconcile these items.

PAYROLL AND PERSONNEL [12]

Documentation of the completed employee separation process was not always complete. This is a repeat finding from the prior FISMA review. Adequate control over employee separation procedures reduces the risk of loss of state funds and inappropriate use of state resources.

FIXED ASSETS [12]

The property survey process needed improvement. Adequate control over the property survey process improves accountability over the disposal of state property.

FISCAL INFORMATION TECHNOLOGY [13]

DISASTER RECOVERY PLAN [13]

The information technology (IT) disaster recovery plan (DRP) did not contain sufficient information to ensure that data processing services would be recovered in a timely manner. With a detailed IT DRP, corresponding business continuation procedures, and frequent off-site backup tape storage, the campus would be better able to restore computer operations and critical information within a reasonable time frame, thereby reducing the impact of a disaster on normal business operations.

PROGRAM CHANGE CONTROL [15]

Existing practices did not prevent all persons with programming responsibilities from making unauthorized changes to production programs and data for 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.

DATA CENTER ACCESS [16]

Access to the data center was not appropriately restricted. Effectively controlling access to the data center minimizes the risk of accidental or intentional damage or theft of equipment or data that is essential to continued campus operations.

ID REMOVAL [16]

Security administration over the removal of computer IDs did not ensure that all of the persons responsible for removing access were notified in a timely manner. Adequate control over logon accounts reduces the risk of unauthorized users gaining access to campus systems and confidential data.

TRUST FUNDS [17]

Trust accounts were not always established and used in accordance with Education Code §89721 and California State University (CSU) policy. When trust accounts are appropriately established, the university is in a stronger position when undergoing other state or external reviews.

SPECIMEN SIGNATURES [19]

Specimen signatures were not maintained for individuals authorized to expend trust funds and initiate payroll/personnel transactions. Maintenance of specimen signatures reduces the risk of improper or unauthorized transactions.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Cash control weaknesses were found at main cashiering and two of the four satellite cashiering locations visited.

The satellite cashiering locations reviewed included parking, the one card center, the college of continuing education, and the office of admissions and records.

Accountability for Cash Receipts

Cash receipts were transferred from many satellite cashiering locations to main cashiering without the use of transfer receipts, and procedures had not been established to prepare a pre-listing for all incoming mail that consists of cash and checks not made payable to California State University, Sacramento (CSUS).

State Administrative Manual (SAM) §8021 states that a separate series of transfer receipts will be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments, not payable to the agency, will be pre-listed by the person opening the mail to localize accountability of these assets.

The supervisor of student financial services indicated that her training had not included the requirements for a transfer receipt process and preparation of pre-listings, and was therefore not aware of the need.

Safety of Funds

There was no written record of individuals with the combination to the safe at the college of continuing education and the date the combination was last changed, and checks were being stored in an open basket in the office of admissions and records.

SAM §8024 requires the changing of 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 §8032.1 requires that when accumulated collections are not in use, they will be locked in a desk, file cabinet, or other device providing comparable safekeeping.

The manager of the college of continuing education indicated that the department was not aware of the requirement to maintain a listing of personnel with access to the safe. The registrar stated her

belief that the checks were appropriately secured, and the process was in accordance with admissions and records' policies and procedures and SAM requirements.

Inadequate controls over cash receipts increase campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Establish and implement procedures to utilize transfer receipts between all satellite cashiering locations and main cashiering and prepare a pre-listing of all incoming mail that consists of cash and checks not payable to CSUS.
- b. Maintain a written record of the individuals with the combination to the safe at the college of continuing education and the date the combination was last changed.
- c. Ensure proper safeguards over checks stored in the office of admissions and records.

Campus Response

We concur. The university will complete the following actions.

- a. The Student Financial Services Center (SFSC) will implement procedures involving transfer receipts to record the acceptance of cash receipts from satellite cashiering locations. Additionally, the SFSC will utilize a log to record items not payable to the university received through incoming mail. These steps will be completed by July 31, 2003.
- b. As of May 30, 2003, the college of continuing education documented those individuals with access to the safe and the date the combination was last changed.
- c. By August 31, 2003, admissions and records will revise its procedures to strengthen controls over checks received in their office.

PURCHASING

Campus procurement card controls did not ensure that purchases were only made by the cardholder and properly supported.

Our review of ten procurement card statements disclosed that six statements included purchases that were made by individuals other than the cardholders, and that six statements did not include original itemized receipts or detailed invoices for all purchases.

The campus *Procurement Credit Card Procedures Manual* states, in part, that the cardholder:

- ▶ Is responsible for the security of the procurement credit card, assuring that he/she is the only person to use the card to make purchases. The individual on the card is the only person authorized to use the card; sharing or loaning a card is strictly prohibited.
- ▶ Shall require the vendor to itemize the receipt/invoice including a description of the purchase, applicable taxes, shipping charges, etc. on all transactions.
- ▶ Is responsible for stapling to the bank statement all original receipts/invoices pertaining to the purchase. If the cardholder has lost receipts/invoices, and a duplicate copy cannot be obtained from the vendor, attach a memo with an explanation to the monthly procurement credit packet.

The accounts payable supervisor indicated her belief that approving officials had not paid sufficient attention to this control to ensure compliance with procurement card procedures.

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

Recommendation 2

We recommend that the campus strengthen controls to ensure that credit card statements are processed in an appropriate manner.

Campus Response

We concur. By September 30, 2003, support services will distribute a memorandum to the campus community reiterating procurement card requirements, particularly use of the card, proper supporting documentation, and disciplinary actions associated with non-compliance of policies and procedures.

REVOLVING FUND

Revolving fund reconciliations were not completed in a timely manner.

At the time of our review, the last completed revolving fund reconciliation was for June 2002. Revolving fund reconciliations for July through November 2002 had not been completed.

SAM §7901 states, in part, that all reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

The manager of cash accounting indicated that workload management failed to detect that these tasks were not completed in a timely manner.

Failure to complete revolving fund reconciliations in a timely manner increases the risk that errors and irregularities will not be detected.

Recommendation 3

We recommend that the campus strengthen procedures to complete revolving fund reconciliations in a timely manner.

Campus Response

We concur. The reconciliations for July through November were brought current by December 20, 2002, and monthly reconciliations have remained current since then. As of June 30, 2003, accounting services strengthened its weekly tracking system for recording, monitoring, and reviewing the status of assigned tasks, including reconciliations.

CASH DISBURSEMENTS

PROMPT PAYMENT

Invoices were not always promptly paid. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) review.

Our review of 20 disbursements disclosed that six payments were delayed more than 45 days, ranging from 48 to 119 days.

Government Code §927.1(a), *Prompt Payment Act*, states, in part, that a state agency that acquires property or services pursuant to a contract with a business, including any approved change order or contract amendment, shall make payment to the person or business on the date required by the contract.

SAM §8475 states, in part, that state agencies which acquire property or services pursuant to a contract with a business will pay that business for each complete delivered item of property or services by the date set forth in the contract or, if no payment date is specified in the contract, within 50 calendar days after the postmark date of the invoice.

The accounts payable supervisor indicated that the delays were due to departments not always sending invoices to accounts payable in a timely manner.

Inadequate control over cash disbursements increases the risk of noncompliance with the *Prompt Payment Act* and inefficiencies related to disbursement procedures.

Recommendation 4

We recommend that the campus strengthen procedures to ensure that invoices are paid within the terms specified.

Campus Response

We concur. By August 31, 2003, accounts payable will distribute a memorandum to the campus community addressing compliance requirements related to the prompt payment of invoices.

Additionally, by this same date, accounts payable will revise its procedures to strengthen the payment process.

OUTSTANDING CHECKS

Long-outstanding checks were not canceled/processed in a timely manner.

Our review of the bank reconciliation, dated September 30, 2002, disclosed that 55 checks totaling \$5,701.03 were older than one year with the oldest check dated June 8, 2001.

SAM §8042 states that:

- ▶ Office revolving fund and agency checks issued on or after January 1, 1998, have a one-year period of negotiability.
- ▶ Office revolving fund checks 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.

The manager of cash accounting indicated that workload management failed to detect that this task was not completed in a timely manner.

Not processing long-outstanding checks in a timely manner increases the risk of misappropriation and requires additional review efforts during the bank reconciliation process.

Recommendation 5

We recommend that the campus strengthen procedures to promptly process long-outstanding checks as required by SAM §8042.

Campus Response

We concur. As of June 30, 2003, accounting services strengthened its weekly tracking system for recording, monitoring, and reviewing the status of assigned tasks, including the processing of outstanding checks.

PAYROLL AND PERSONNEL

Documentation of the completed employee separation process was not always complete. This is a repeat finding from the prior FISMA review.

Our review of eight employee separations between July 2000 and September 2002 disclosed that the campus did not have one of the required clearance forms on file, and an additional clearance form was not properly completed.

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

The manager of payroll services indicated that one college did not adhere to the process established for separation of part-time faculty. She further stated her belief that the other separation document was appropriately completed.

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

Recommendation 6

We recommend that the campus review and strengthen employee separation procedures to ensure adequate accountability of state resources.

Campus Response

We concur. Business affairs will distribute a memorandum to the campus community reiterating the separation process for part-time faculty. Additionally, the manager of payroll services will distribute a memorandum to payroll staff regarding the proper completion of the check out and clearance form. These steps will be completed by September 30, 2003.

FIXED ASSETS

The property survey process needed improvement.

We noted that property survey reports were not always completed before the property was disposed of. Additionally, various campus departments did not report the loss or theft of property to the property accountant. For fiscal year 2001-2002, we found that the property department was only informed of stolen state property totaling \$51,069, while the amounts reported to university police totaled \$89,571.

SAM §3520.3 indicates, in part, that a properly executed property survey report must be completed when disposing of state-owned property.

SAM §8643 requires the preparation of a property survey report whenever property is lost, stolen, or destroyed and an adjustment to the property accounting records.

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

The manager of procurement and contract services indicated that some departments were not following the survey board policy by completing the survey report prior to selling the items. He further noted that he was unaware that departments were failing to notify property accounting when an item was lost or stolen.

Inadequate controls over the property survey process reduce accountability over the disposal of state property.

Recommendation 7

We recommend that the campus evaluate and strengthen property survey procedures to ensure that:

- a. Survey reports are properly executed before asset disposition.
- b. Property survey reports for lost or stolen property are promptly prepared and forwarded to the property accountant.

Campus Response

We concur. Support services will distribute a memorandum to the campus community reiterating the process when equipment is lost, stolen, or destroyed. Additionally, a memorandum will be distributed to property accounting discussing adherence to proper procedures for the documentation and approval for equipment disposal. These steps will be completed by September 30, 2003.

FISCAL INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN

The information technology (IT) disaster recovery plan (DRP) did not contain sufficient information to ensure that data processing services would be recovered in a timely manner.

Specifically, we noted that the current disaster recovery plan did not clearly define a detailed recovery strategy, provide equipment contracts or provisions for alternate site recovery, and address end-user recovery procedures. In addition, the plan had not been tested and provided for backup tapes to only be 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.

Executive Order (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 operating systems project lead stated that data recovery procedures were documented; however, comprehensive detailed recovery policies and procedures had not been completed. He further stated that weekly offsite backups might be appropriate depending on the campus needs for data recovery, and that critical daily tapes are kept in a fireproof safe.

Without a detailed IT DRP, corresponding business continuation procedures, and frequent off-site storage of backup tapes, the campus may not be able to restore computer operations and critical information within a reasonable time frame, which could severely impact the ability of the campus to conduct normal business operations.

Recommendation 8

We recommend that the campus:

- a. Enhance the IT DRP by adding detailed procedures for all sections outlined in the SAM, secure contracts for hardware replacement and for alternate recovery site, 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 and that reflects 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.
- c. Develop written manual operating and recovery procedures for business units to assist operations during an extended outage of data processing services, such as re-creation of up to one week of lost data and procedures for entering data collected manually during a prolonged system outage.

- d. Determine if only 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. By November 30, 2003, university computing and communications services will complete the following actions.

- a. Review the existing IT DRP and update as appropriate. Included in that review will be an examination of current procedures for hardware replacement, identification of alternate recovery site, data/services backup/recovery procedures, and frequency of transporting backup media off-site.
- b. Assess the impact of major system outages on university operations. Recovery options to shorten and mitigate the impact of outages will be addressed under item a.
- c. Operating and recovery procedures will be examined and guidelines developed to assist business units to continue to operate should there be a major system failure.

Included in item a will be a review of the current procedures for off-site storage of backup media, and the storage of critical daily backup media in a fireproof storage cabinet.

PROGRAM CHANGE CONTROL

Existing practices did not prevent all persons with programming responsibilities from making unauthorized changes to production programs and data for 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 manager of administrative computing stated that it has not been practical to separate control functions due to staffing levels and the number and type of system responsibilities.

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 9

We recommend that if the campus cannot effectively restrict all programmers from update access to production copies of programs and data, then a detective control reflecting programs that have been changed should be produced and reviewed by management on a regular basis, and access to data should not be allowed without specific written authorization from management.

Campus Response

We concur. By November 30, 2003, administrative computing will examine existing procedures and revise as required to assure proper documentation and authorization of changes to production software and data.

DATA CENTER ACCESS

Access to the data center was not appropriately restricted.

Due to the types of equipment maintained in the computer room, a large number of persons had access cards to the door, which did not appropriately restrict access to the data center to only those persons who have responsibility for maintaining the computer systems.

SAM §4842.2 requires each state agency to establish and maintain physical security measures that provide for management control of physical access to information assets. Physical security practices for each facility must be adequate to protect the most sensitive information technology application housed in that facility.

The director of university computing and communications services stated his belief that access to the computer room was sufficiently restricted.

Inappropriate access to the data center increases the risk of accidental or intentional damage or theft to equipment and data that is essential to the continued operation of the campus.

Recommendation 10

We recommend that the campus restrict access to the data center to only authorized personnel, which should be limited to the operators and a few key personnel.

Campus Response

We concur. By November 30, 2003, operations and network services will review current access assignments for continued justification and to ensure the appropriateness of security access clearances.

ID REMOVAL

Security administration over the removal of computer IDs did not ensure that all of the persons responsible for removing access were notified in a timely manner.

Specifically, we noted that persons responsible for removing mainframe FRS and SIS IDs were not consistently notified of changes in employment status that affected computer access privileges.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective personnel practices to permit removal of access privileges. Effective personnel practices would be considered to include prompt notification of changes in employment status.

The associate vice president of finance stated that employee checkout procedures effectively addressed access to business applications but overlooked access to the student applications system and general network.

Inadequate controls over logon accounts increases the risk that unauthorized users may gain access to campus systems and confidential data.

Recommendation 11

We recommend that the campus modify the process for removing access privileges to include employee transfers and strengthen procedures to delete inactive accounts of terminated employees.

Campus Response

We concur. By November 30, 2003, administrative computing and desktop services will work cooperatively with appropriate university departments to implement and document a process to ensure computer access privileges reflect changes in employment status.

TRUST FUNDS

Trust accounts were not always established and used in accordance with Education Code §89721 and California State University (CSU) policy.

Our review of 14 trust accounts disclosed that:

- ▶ One trust account (Business Affairs Trust No. 758110) was being used to receive reimbursements for the cost of services provided by various administrative units, which were funded by the General Fund.
- ▶ One other trust account (Facilities Management Trust No. 758140) had been established to collect lost key revenue and fees from the use of campus facilities by non-campus entities. However, the funds were being inappropriately used to fund such items as travel for facilities management staff and employee recognition gifts.

Education Code §89721 states, in part, that 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.

EO No. 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states, in part, that auxiliary enterprises shall be charged the allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the General Fund. Direct and indirect cost allocations to auxiliary enterprises to reimburse the General Fund should be reasonable, and provide consistent estimation, accumulation and reporting of costs incurred on behalf of auxiliary enterprises.

The associate vice president of finance indicated that it was the opinion of the campus that the trust accounts were being used in compliance with the Education Code.

Trust accounts that are not established and used in accordance with the Education Code and CSU policy expose the university to public relations risks that are difficult to quantify but significant.

Recommendation 12

We recommend that the campus:

- a. Deposit General Fund reimbursements to the General Fund.
- b. Establish and implement procedures to ensure that expenditures from the Facilities Management trust account are used solely to meet the costs associated with lost keys and the use of campus facilities by non-campus entities.

Campus Response

By November 30, 2003, business affairs will revise its processes to insure that all reimbursements paid in accordance with EO No. 753 are deposited into the appropriate General Fund chartstring. Additionally, by the same date, facilities management will insure that only expenses attributed to the costs related to the sources of funds are charged to this trust account. These actions will be documented in memorandums from the associate vice president for finance.

SPECIMEN SIGNATURES

Specimen signatures were not maintained for individuals authorized to expend trust funds and initiate payroll/personnel transactions.

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

The vice president for administration indicated that the campus did not feel that the effort required to maintain specimen signatures sufficiently enhanced the University's current process for identifying those who were authorized to approve these transactions.

Not maintaining specimen signatures increases the risk of improper or unauthorized transactions.

Recommendation 13

We recommend that the campus document, obtain, and maintain specimen signatures for those individuals authorized to perform trust account and payroll/personnel transactions through a hardcopy signature card system or through secured electronic signatures.

Campus Response

We concur. By September 30, 2003, business affairs will enhance the existing signature authorization list used by procurement and contract services to encompass all campus expenditures. By November 30, 2003, auditing services will incorporate a review of signature card authorizations for personnel and payroll documents into its annual review of delegated uses of funds.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Donald R. Gerth	President
Denny Allison	Supervisor, Property Accounting
La Verne Barnett	Legal Accountant, Accounting Services
Jennifer Barrett	Legal Accounting Technician
Mike Cooling	Operating System Project Leader, University Computing and Communications Services
Justine Crossno	Manager, Financial Accounting
Edward Del Biaggio	Vice President for Administration
Felice Dinsfriend	Financial Coordinator, College of Continuing Education
Gary Dunham	Manager of Operating Systems and Network Support, University Computing and Communications Services
Gina Feliciano	Supervisor, Student Financial Services
Marc Fox	Analyst/Programmer, University Computing and Communications Services
Nancy Fox	Manager, University Transportation and Parking
Spencer Freund	Associate Vice President for Academic Affairs/Telecommunications
Cristina Galeste	Associate Director for Administrative Operations, College of Continuing Education
Leticia Guerrero	Supervisor, Payroll Services
Anita Hall	Registrar
John Hamrick	Investigator/Corporal, Department of Public Safety
David Hill	Director, University Computing and Communications Services
Clint Lee	Business Systems Manager, Management Services
Stewart McConnell	Auditor, Auditing Services
Kathi McCoy	Manager, Auditing Services
Teresa Mills	Manager, Payroll Services
Janet Morris	Buyer, Procurement and Contract Services
Nancy Nelson	Enrollment Services Coordinator, Admissions and Records
Jeanette Norton	General Manager, Student Financial Services
Staci Overman	Records Supervisor, Department of Public Safety
Carolyn Pittman	University Budget Officer
David Proschold	One Card System Administrator
Rosemary Quinn	Manager, Cash Accounting
Patricia Robson	Accounts Payable Technician
Jay Rutherford	Travel Coordinator, Accounts Payable
Darlene Scates	User Support Supervisor, Management Services
Gabrielle Self	Supervisor, Student Financial Services
Jon Self	Associate Vice President of Finance
David Shannon	Manager, Procurement and Contract Services
Ondria Small	Registration Coordinator, College of Continuing Education
Debbie Smith	Accounts Payable Technician
Brian Smith	Manager of Administrative Computing, University Computing and Communications Services

APPENDIX A

Jim Staley
Suzanne Swartz
Tamara Frost Trujillo
Krista Vallador
Lisa Wicks

Shuttle Coordinator, University Transportation and Parking Services
Buyer III, Procurement and Contract Services
Senior Associate Dean, Library
Administrative Support Coordinator I, One Card Center
Supervisor, Accounts Payable

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, SACRAMENTO

OFFICE OF THE VICE PRESIDENT FOR ADMINISTRATION

June 30, 2003

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

RECEIVED
UNIVERSITY AUDITOR

JUL - 7 2003

THE CALIFORNIA STATE
UNIVERSITY

Subject: Campus Response to Recommendations of Audit Report #02-08
CSU, Sacramento - FISMA

Dear Mr. Mandel:

We submit the attached document as our response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Manager of Auditing Services, at 916 278-7439.

Sincerely,

Edward C. Del Biaggio
Vice President for Administration

Attachment

cc: M. Altier
S. Freund
D. Gerth
A. Gonzalez
R. Grant
D. Hill
K. McCoy
J. Self
A. Tom
S. Uplinger

6000 J Street, Sacramento, California 95819-6038 • (916) 278-6312 • (916) 278-5783 FAX

**CALIFORNIA STATE UNIVERSITY,
SACRAMENTO**

**FISMA
AUDIT REPORT NO. 02-08**

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Establish and implement procedures to utilize transfer receipts between all satellite cashiering locations and main cashiering and prepare a pre-listing of all incoming mail that consists of cash and checks not payable to CSUS.
- b. Maintain a written record of the individuals with the combination to the safe at the college of continuing education and the date the combination was last changed.
- c. Ensure proper safeguards over checks stored in the office of admissions and records.

Campus Response

We concur. The University will complete the following actions.

- a. The Student Financial Services Center (SFSC) will implement procedures involving transfer receipts to record the acceptance of cash receipts from satellite cashiering locations. Additionally, the SFSC will utilize a log to record items not payable to the University received through incoming mail. These steps will be completed by July 31, 2003.
- b. As of May 30, 2003, the College of Continuing Education documented those individuals with access to the safe and the date the combination was last changed.
- c. By August 31, 2003, Admissions and Records will revise its procedures to strengthen controls over checks received in their office.

PURCHASING

Recommendation 2

We recommend that the campus strengthen controls to ensure that credit card statements are processed in an appropriate manner.

Campus Response

We concur. By September 30, 2003, Support Services will distribute a memorandum to the campus community reiterating procurement card requirements, particularly use of the card, proper supporting documentation, and disciplinary actions associated with non-compliance of policies and procedures.

REVOLVING FUND

Recommendation 3

We recommend that the campus strengthen procedures to complete revolving fund reconciliations in a timely manner.

Campus Response

We concur. The reconciliations for July through November were brought current by December 20, 2002, and monthly reconciliations have remained current since then. As of June 30, 2003, Accounting Services strengthened its weekly tracking system for recording, monitoring, and reviewing the status of assigned tasks, including reconciliations.

CASH DISBURSEMENTS

PROMPT PAYMENT

Recommendation 4

We recommend that the campus strengthen procedures to ensure that invoices are paid within the terms specified.

Campus Response

We concur. By August 31, 2003, Accounts Payable will distribute a memorandum to the campus community addressing compliance requirements related to the prompt payment of invoices. Additionally, by this same date, Accounts Payable will revise its procedures to strengthen the payment process.

OUTSTANDING CHECKS

Recommendation 5

We recommend that the campus strengthen procedures to promptly process long outstanding checks as required by SAM §8042.

Campus Response

We concur. As of June 30, 2003, Accounting Services strengthened its weekly tracking system for recording, monitoring, and reviewing the status of assigned tasks, including the processing of outstanding checks.

PAYROLL AND PERSONNEL

Recommendation 6

We recommend that the campus review and strengthen employee separation procedures to ensure adequate accountability of state resources.

Campus Response

We concur. Business Affairs will distribute a memorandum to the campus community reiterating the separation process for part-time faculty. Additionally, the Manager of Payroll Services will distribute a memorandum to payroll staff regarding the proper completion of the Check Out and Clearance Form. These steps will be completed by September 30, 2003.

FIXED ASSETS**Recommendation 7**

We recommend that the campus evaluate and strengthen property survey procedures to ensure that

- a. Survey reports are properly executed before asset disposition.
- b. Property survey reports for lost or stolen property are promptly prepared and forwarded to the property accountant.

Campus Response

We concur. Support Services will distribute a memorandum to the campus community reiterating the process when equipment is lost, stolen, or destroyed. Additionally, a memorandum will be distributed to Property Accounting discussing adherence to proper procedures for the documentation and approval for equipment disposal. These steps will be completed by September 30, 2003.

FISCAL INFORMATION TECHNOLOGY**DISASTER RECOVERY PLAN****Recommendation 8**

We recommend that the campus:

- a. Enhance the IT DRP by adding detailed procedures for all sections outlined in the SAM, secure contracts for hardware replacement and for alternate recovery site, 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 and that reflects 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.
- c. Develop written manual operating and recovery procedures for business units to assist operations during an extended outage of data processing services, such as re-creation of up to one week of lost data and procedures for entering data collected manually during a prolonged system outage.
- d. Determine if only 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. By 11/30/03, UCCS will complete the following actions.

- a. Review the existing IT DRP and update as appropriate. Included in that review will be an examination of current procedures for hardware replacement, identification of alternate recovery site, data/services backup/recovery procedures, and frequency of transporting backup media off-site.
- b. Assess the impact of major system outages on University operations. Recovery options to shorten and mitigate the impact of outages will be addressed under item a.
- c. Operating and recovery procedures will be examined and guidelines developed to assist business units to continue to operate should there be a major system failure.
- d. Included in item a will be a review of the current procedures for off-site storage of backup media, and the storage of critical daily backup media in a fireproof storage cabinet.

PROGRAM CHANGE CONTROL**Recommendation 9**

We recommend that if the campus cannot effectively restrict all programmers from update access to production copies of programs and data, then a detective control reflecting programs that have been changed should be produced and reviewed by management on a regular basis, and access to data should not be allowed without specific written authorization from management.

Campus Response

We concur. By 11/30/03, Administrative Computing will examine existing procedures and revise as required to assure proper documentation and authorization of changes to production software and data.

DATA CENTER ACCESS**Recommendation 10**

We recommend that the campus restrict access to the data center to only authorized personnel, which should be limited to the operators and a few key personnel.

Campus Response

We concur. By 11/30/03, Operations and Network Services will review current access assignments for continued justification and to ensure the appropriateness of security access clearances.

ID REMOVAL**Recommendation 11**

We recommend that the campus modify the process for removing access privileges to include employee transfers and strengthen procedures to delete inactive accounts of terminated employees.

Campus Response

We concur. By 11/30/03, Administrative Computing and Desktop Services will work cooperatively with appropriate University departments to implement and document a process to ensure computer access privileges reflect changes in employment status.

TRUST FUNDS**Recommendation 12**

We recommend that the campus:

- a. Deposit General Fund reimbursements to the General Fund.
- b. Establish and implement procedures to ensure that expenditures from the Facilities Management trust account are used solely to meet the costs associated with lost keys and the use of campus facilities by non-campus entities.

Campus Response

By November 30, 2003, Business Affairs will revise its processes to insure that all reimbursements paid in accordance with Executive Order #753 are deposited into the appropriate general fund chartstring. Additionally, by the same date, Facilities Management will insure that only expenses attributed to the costs related to the sources of funds are charged to this trust account. These actions will be documented in memorandums from the Associate Vice President for Finance.

SPECIMEN SIGNATURES**Recommendation 13**

We recommend that the campus document, obtain, and maintain specimen signatures for those individuals authorized to perform trust account and payroll/personnel transactions through a hardcopy signature card system or through secured electronic signatures.

Campus Response

We concur. By September 30, 2003, Business Affairs will enhance the existing signature authorization list used by Procurement and Contract Services to encompass all campus expenditures. By November 30, 2003, Auditing Services will incorporate a review of signature card authorizations for personnel and payroll documents into its annual review of delegated uses of funds.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

July 15, 2003

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 02-08 on *FISMA*,
California State University, Sacramento

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 15, 2003, I accept the response as submitted with the draft final report on *FISMA*, California State University, Sacramento.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Dr. Alexander Gonzalez, President
Mr. Jonathan Self, Associate Vice President for Finance

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAU