

**FISMA**

**CALIFORNIA MARITIME ACADEMY**

**Report Number 02-09  
April 28, 2003**

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## **ABBREVIATIONS**

CMA	California Maritime Academy
CSEA	California State Employees Association
CSU	California State University
CTO	Compensatory Time Off
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
IUOE	International Union of Operating Engineers
GASB	Governmental Accounting Standards Board
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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## **INTRODUCTION**

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### **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.

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### **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 July 2002 to September 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.

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## 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.

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## 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 Maritime Academy (CMA) campus from October 21, 2002, through December 12, 2002, and made a study and evaluation of the accounting and administrative control in effect as of December 12, 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.

CMA 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: fixed assets, accounts receivable, fiscal information technology, and investments. 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, CMA's accounting and administrative control in effect as of December 12, 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]**

#### **CASHIERING [7]**

Dining hall cashiering procedures did not ensure accurate recording and accountability of cash receipts. Adequate control over cash receipts reduces the risk of loss of state funds and inappropriate use of state resources.

#### **ONECARD ACCOUNTS [8]**

Access to OneCard accounts was not adequately controlled. Adequate control over access to OneCard accounts reduces the risk of unauthorized increases to the value of the accounts.

### **ACCOUNTS RECEIVABLE [8]**

#### **GENERAL FUND REIMBURSEMENTS [8]**

Controls over General Fund reimbursements for support services provided by the campus to auxiliary enterprises did not ensure complete and accurate reimbursement. Adequate control over the reimbursement of support services ensures complete and accurate reimbursement to the General Fund, compliance with CSU policy, and increased working capital.

#### **ACCOUNTS RECEIVABLE FOLLOW-UP [9]**

The campus had not performed timely follow-up for delinquent accounts receivables. Well-established controls over accounts receivable increase working capital and reduce the risk of lost revenue.

### **PURCHASING [10]**

Access to the vendor master file was not adequately controlled. Limited access to the vendor master file reduces the risk of fraudulently misdirected payments.

## **CASH DISBURSEMENTS [11]**

### **PEOPLESOFT ACCESS [11]**

Some campus personnel had greater update authority for automated financial systems than their duties required. Restricting accounting record access only to individuals who require it improves internal control over state assets.

### **FOOD SERVICE PAYMENTS [11]**

The campus did not properly validate invoices from a third party vendor that provided food service management. Adequately validated invoices reduce the risk of overpayments.

### **CRUISE ACCOUNTING REVIEW [12]**

Documentation was not provided evidencing an overall review of the accounting for annual training cruises. A documented overall review of training cruise accounting reduces the risk of irregularities and misappropriation.

## **PAYROLL AND PERSONNEL [13]**

Payment of compensatory time off (CTO) was not timely. Timely payment of CTO reduces the risk of the campus having grievances filed or penalties incurred.

## **FIXED ASSETS [14]**

### **PROPERTY ACCOUNTING [14]**

Controls over property did not ensure that assets were properly tracked, tagged, recorded, and reconciled to accounting records. Adequate control over the tracking, tagging, recording, and reconciliation of property to accounting records reduces the risk of theft or loss of state property.

### **PROPERTY SURVEY [15]**

A property survey board had not been established. Additionally, although property survey forms were used for property that was donated to local governmental/nonprofit agencies or sold, property survey forms were not used for other property dispositions such as obsolescence, loss, or theft. Adequate control over property surveys improves accountability over the disposal of state property.

## **FISCAL INFORMATION TECHNOLOGY [16]**

### **DISASTER RECOVERY PLAN [16]**

The campus had converted all significant financial transaction processing to PeopleSoft; however, disaster recovery plans had not been updated to reflect such changes. With detailed business continuation procedures to be followed during an outage of data processing services, the campus will be better able to restore computer operations within a reasonable time frame.

### **DATA CENTER INTRUSION DETECTION [17]**

The campus did not have intrusion detection equipment to monitor unauthorized access to the data center after business hours. After hour intrusion detection equipment reduces the risk of unauthorized access during non-business hours and protects the campus from the loss of equipment necessary to support local data processing services.

## **INVESTMENTS [18]**

Investment income was reinvested rather than distributed back to trust accounts as required by campus policy. Distribution of investment earnings back to the appropriate trust accounts complies with campus policy and permits trust account managers to fully utilize their funds.

## **RECONCILIATIONS [19]**

Reconciliations were not always timely prepared. Timely and complete performance of reconciliations improves accountability and the campus' ability to detect errors and irregularities.

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# **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

## **CASH RECEIPTS**

### **CASHIERING**

Dining hall cashiering procedures did not ensure accurate recording and accountability of cash receipts.

- ▶ Receipts were not issued for cash payments.
- ▶ Strict accountability of cash receipts by cashiers in the dining hall was not maintained.
- ▶ Cash receipts were not recorded on the cash register, restricting the ability to accurately account for daily receipts.
- ▶ A written record was not maintained of individuals with access to the dining hall safe and the date of the last combination change.

State Administrative Manual (SAM) §8020 states that receipts will be prepared for all collections of currency or coin received in person from payers who are not given press-numbered documents of fixed value (such as guest meal tickets) at the time of payment.

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

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

SAM §8024 states that a record will be kept showing the date the safe combination was last changed and the names of persons knowing the present combination.

The controller and the director of California Maritime Academy (CMA) services indicated that they were working with the outside vendor that manages the dining hall to remedy these issues.

Inadequate control over cash receipts increases the risk of loss of state funds and inappropriate use of state resources.

### **Recommendation 1**

We recommend that the campus:

- a. Establish proper accountability over dining hall cash receipts, including the issuance of receipts for cash payments.

- b. Maintain a record of individuals who have access to the dining hall safe and the date the combination was last changed.

**Campus Response**

We concur with the recommendation. We have discussed the weakness of recording and accountability of cash receipts with the director of CMA services. It was agreed to work with the foodservice managers and have written cash handling procedures for the dining hall in place prior to September 1, 2003. Effective immediately, all daily meal purchases will be issued a register receipt. We have also created a log to record the individuals who have access to the dining hall safe and the date the combination was last changed.

**ONECARD ACCOUNTS**

Access to OneCard accounts was not adequately controlled.

We found that information services staff had the capability to increase OneCard account values.

SAM §8080.1 states that no one person will perform more than one of a variety of duties, including maintaining a records file and inputting receipts information.

The accounting manager indicated that this duty had been performed by the information services area in the past but has more recently been performed by the accounting area.

Failure to adequately control access to OneCard accounts increases the risk of unauthorized changes in the value of the accounts.

**Recommendation 2**

We recommend that the campus restrict access to OneCard accounts.

**Campus Response**

We concur with the recommendation. Security clearances have been modified, and the information staff no longer has the capability to access or modify OneCard account values.

**ACCOUNTS RECEIVABLE**

**GENERAL FUND REIMBURSEMENTS**

Controls over General Fund reimbursements for support services provided by the campus to auxiliary enterprises did not ensure complete and accurate reimbursement.

We found that a written cost allocation plan had not been completed and approved by the campus chief financial officer and that the chargeback rates currently in effect had not been revised since the campus joined the California State University (CSU) system in 1995.

Executive Order (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. Cost allocations shall be determined in accordance with a written cost allocation plan approved annually by the campus chief financial officer.

SAM §20050 requires, in part, that there should be a system of internal review and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The controller indicated that the campus had initiated steps to implement a process of periodic review and identification of the charges that should be made for support services provided by the campus.

Inadequate control over the reimbursement of support services provided to auxiliary enterprises increases the risk of incomplete and inaccurate reimbursement to the General Fund, noncompliance with CSU policy, and reduced working capital.

### **Recommendation 3**

We recommend that the campus:

- a. Complete a written cost allocation plan in accordance with EO No. 753, including approval by the campus chief financial officer, and establish procedures to ensure that the plan is updated and approved on an annual basis.
- b. Conduct a study to determine the completeness and accuracy of the chargeback rates currently in effect and update and/or add additional chargeback rates, as warranted.

### **Campus Response**

We concur with the recommendation. A chargeback committee, chaired by the university controller, has been established to implement a comprehensive and detailed cost allocation plan in accordance with EO No. 753. This committee will also study the completeness and accuracy of the chargeback rates used. The cost allocation plan will be implemented by November 1, 2003.

### **ACCOUNTS RECEIVABLE FOLLOW-UP**

The campus had not performed timely follow-up for delinquent accounts receivables.

Our review of 15 accounts receivable, including student, payroll, and third-party, disclosed that 12 had not received timely follow-up. Initial follow-up for 11 of these accounts occurred more than six months after invoicing.

SAM §8776.6 requires that each department will develop collection procedures that will assure prompt follow-up of receivables, beginning 30 days after billing, and every 30 days for 90 days.

The controller indicated that the accounts receivable position had been vacant for an extended period of time and that no authorization had been given to fill the position.

Inadequate control over accounts receivable decreases working capital and increases the risk of lost revenue.

#### **Recommendation 4**

We recommend that the campus strengthen procedures to ensure timely follow-up for accounts receivables.

#### **Campus Response**

We concur with the recommendation. The California Maritime Academy has recently become one of the campuses of the California State University. Because of CMA's relatively small size and historically low funding levels combined with the additional administrative requirements of the CSU, CMA is experiencing budgetary, organizational, and workflow issues. At the request of CMA and The California State University Chancellor's Office, K. Scott Hughes Associates conducted a financial and organization design study. Portions of the report addressed the minimum staffing levels required to deliver acceptable service and meet appropriate internal control requirements. In response to that report as well as our FISMA findings, authorization to hire two additional positions in the accounting department was granted. We anticipate hiring an accounts receivable position and strengthening collection procedures by September 1, 2003.

## **PURCHASING**

Access to the vendor master file was not adequately controlled.

Accounting staff responsible for generating payments and purchasing staff responsible for creating purchase orders had the ability to create and update vendor files.

SAM §8080.1 states that no one person will perform more than one of a variety of duties, including maintaining a records file and initiating a disbursement document.

SAM §20050 states that a plan of organization must be established to provide segregation of duties appropriate for proper safeguarding of state agency assets.

The controller indicated that the control risk related to the vendor file had changed since the implementation of PeopleSoft and needed to be reviewed.

Open access to the vendor master file increases the risk of fraudulently misdirected payments.

### **Recommendation 5**

We recommend that the campus review and appropriately restrict access to the vendor master file.

### **Campus Response**

We concur with the recommendation. Access to the vendor master file will be restricted to appropriate personnel by June 30, 2003.

## **CASH DISBURSEMENTS**

### **PEOPLESOFT ACCESS**

Some campus personnel had greater update authority for automated financial systems than their duties required.

The vice presidents of academic affairs and financial affairs each had access to the automated financial systems, which permitted them to bypass PeopleSoft application controls and to make direct updates to data.

SAM §20050 requires, in part, that there should be procedures in place adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The chief information officer indicated that system access profiles employed during the pre-implementation/testing phase had not been updated when the campus converted to PeopleSoft.

When access to accounting records is permitted beyond what is required, internal control over state assets can be unnecessarily put at risk.

**During the course of our review, the campus completed the removal of unnecessary system access for campus staff that did not require it.**

### **FOOD SERVICE PAYMENTS**

The campus did not properly validate invoices from a third party vendor that provided food service management.

CMA services, a campus department, contracted with Chartwells to provide on campus food service management. Invoices from Chartwells were for its net operating cost, which included charges for food products, supplies, and services in addition to contracted management and administrative fees. Our review disclosed that CMA had not established procedures to validate the charges for food products, supplies, and services.

SAM §20050 requires, in part, that there should be a system of internal review and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director of CMA services indicated her belief that the system used by the outside vendor to document and communicate food services expenses was adequate.

Inadequately validated invoices increase the risk of overpayments.

### **Recommendation 6**

We recommend that the campus establish procedures to validate the accuracy and/or reasonableness of charges for food products, supplies, and services.

### **Campus Response**

We concur with the recommendation. We will develop procedures to internally audit the Chartwells invoices for accuracy and/or reasonableness. The audit procedures will be performed at the end of each semester as well as upon the return of the Golden Bear from the summer cruises. It is anticipated that each audit will vouch information on the Chartwells invoices back to the original purchases as well as analytical review of the costs. The audit procedures will be in place by September 1, 2003.

## **CRUISE ACCOUNTING REVIEW**

Documentation was not provided evidencing an overall review of the accounting for annual training cruises.

While aspects of cruise accounting (e.g., accounts payable, travel claims, foreign port agent selection and cashiering) were adequately controlled and documented, there was no documented overall review of the accounting for training cruises. Such review would also include an evaluation of the adequacy of the domestic port agent selection process.

SAM §20050 indicates, in part, 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 as well as an effective system of internal review.

The vice president for financial affairs indicated that the existing controls appeared to be adequate.

The lack of an overall review of training cruise accounting increases the risk of irregularities and misappropriation.

### **Recommendation 7**

We recommend that the campus perform and document an overall review of training cruise accounting.

### **Campus Response**

We concur with the recommendation. Procedures for a review of the accounting for training cruises shall be implemented. The review will take place annually after completion of the second cruise each year. We expect that the review will strengthen controls over cruise accounting and provide additional management information applicable to planning future cruises. Our review of the training cruise accounting will be completed prior to October 31, 2003.

## **PAYROLL AND PERSONNEL**

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

Our review of CTO balances disclosed that four employees were not paid excess accrued CTO in accordance with their respective bargaining unit contracts. Three employees were represented by the California State Employees Association (CSEA), and the other employee was represented by the International Union of Operating Engineers (IUOE).

Article 19.10 of the CSEA bargaining agreement requires 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.

Article 12.3 of the IUOE bargaining agreement requires all overtime worked beyond the accrual of 240 hours of compensatory time shall be paid in cash.

The director of human resources indicated that CTO balances should have been paid off in accordance with the terms of applicable bargaining unit contracts.

Failure to make timely payments of CTO increases the risk that the campus will have grievances filed or penalties incurred against it.

### **Recommendation 8**

We recommend that the campus strengthen controls and procedures to ensure that excess CTO hours are paid in accordance with respective collective bargaining agreements.

### **Campus Response**

We concur with the recommendation. All noncompliant instances have been corrected and additional controls to ensure excess CTO hours are paid in accordance to bargaining agreements will be in place by July 31, 2003.

## FIXED ASSETS

### PROPERTY ACCOUNTING

Controls over property did not ensure that assets were properly tracked, tagged, recorded, and reconciled to accounting records.

We noted the following:

- ▶ The campus computerized fixed asset inventory system was not being fully utilized. Although the campus had purchased and implemented a new computerized fixed asset inventory system in response to our previous FISMA review, the system had not been maintained. Details of current acquisitions were being maintained on an Excel spreadsheet.
- ▶ A reconciliation was not performed between those items which should have been tagged and those items that were tagged.
- ▶ The campus did not reconcile the acquisitions and dispositions of capitalized property with amounts recorded in the property ledger, on a monthly or quarterly basis. Although semi-annual statements of inventory value were produced, the statements were not reconciled with amounts recorded in the property ledger.
- ▶ Although the campus recently contracted with an outside vendor to perform a capital asset valuation to comply with the requirements of Governmental Accounting Standards Board (GASB) Statements 34 and 35, the campus had not established procedures to perform a physical inventory at least once every three years.

SAM §8650 requires departments to record certain information when property is acquired and to keep track of state property, whether capitalized or not.

SAM §8651 requires that all state property be tagged after acquisition, including property that does not meet capitalization requirements.

EO No. 649, *Safeguarding State Property*, dated February 15, 1996, indicates that the campus may continue to follow the State Administrative Manual guidelines (e.g., §8651) or institute a policy more appropriate to the university's environment for noncapitalized state property.

SAM §7924 requires agencies at least quarterly, or monthly, depending upon the volume of property transactions, to reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

SAM §8652 requires, in general, a physical count of all property at least every three years, a reconciliation of the count to accounting records, and management oversight of resulting adjustments.

The director of facilities management indicated that the campus has been unable to provide adequate training to key personnel to allow updating of the inventory system. The controller indicated that

campus priorities for the implementation of PeopleSoft and meeting other essential accounting responsibilities had created challenges for the performance of property related reconciliations and inventory.

Inadequate controls over tracking, tagging, recording, and reconciliation of property to accounting records increases the risk of misstated inventory and accounting records and theft or loss of state property.

### **Recommendation 9**

We recommend that the campus:

- a. Update, maintain, and fully utilize the computerized fixed asset inventory system.
- b. Establish procedures to ensure that all state property is tagged after acquisition.
- c. Perform reconciliations of acquisitions and dispositions of capitalized property with amounts recorded in the property ledger on a monthly or at least quarterly basis.
- d. Establish procedures to perform a physical inventory at least every three years, including a reconciliation of the count to accounting records and management oversight of resulting adjustments.

### **Campus Response**

We concur with the recommendation(s). We will update the computerized fixed asset inventory system and establish procedures to ensure that state property is properly tagged by June 30, 2003. The campus has already completed an inventory of “sensitive assets” and taken steps to enhance security over those assets. The reconciliation of fixed asset accounts will be assigned to a designated responsible party and will be performed not less than quarterly. Procedures to perform a physical inventory every three years will be established. A physical inventory was completed at June 30, 2002 as part of the GAAP requirements. That inventory will be the basis for updating our computerized fixed asset inventory system and establishes the starting point to carry forward from. It is our goal to have the entire fixed asset control system in place and operational by October 1, 2003.

### **PROPERTY SURVEY**

A property survey board had not been established. Additionally, although property survey forms were used for property that was donated to local governmental/nonprofit agencies or sold, property survey forms were not used for other property dispositions such as obsolescence, loss, or theft.

SAM §3520.2 indicates that each agency will have a duly appointed property survey board responsible for determining whether the best interest of the state is served in disposing of state property. To the extent possible, there will be a sufficient number of members on the board to ensure that both business management and program responsibilities will be represented. At least two

members of the property survey board will approve all property survey reports and any transfers of location of equipment.

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.

The controller indicated that the campus did not have an official property survey board due to resignations and reassignments.

Inadequate control over property surveys reduces accountability over the disposal of state property.

### **Recommendation 10**

We recommend that the campus establish a property survey board and procedures to ensure that all property disposals are recorded on property survey reports for review and approval by the board.

### **Campus Response**

We concur with the recommendation. A property survey board will be reestablished as part of our total effort to shore up controls over the university's fixed assets. Procedures to ensure that all property disposals are properly recorded, reviewed, and approved will be implemented. As stated in recommendation 9, our goal is to have everything in place by October 1, 2003.

## **FISCAL INFORMATION TECHNOLOGY**

### **DISASTER RECOVERY PLAN**

The campus had converted all significant financial transaction processing to PeopleSoft; however, disaster recovery plans had not been updated to reflect such changes.

Specifically, we noted that updated written manual operating and recovery procedures were needed for business units during an extended outage of data processing services that address how to recover lost data, as well as procedures for entering data collected manually during a prolonged system outage.

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 chief information officer stated that Unisys would perform the information technology data recovery procedures, but that written recovery policies and procedures for the business units had not been created.

Without detailed business continuation procedures to be followed during an outage of data processing services, the campus may not be able to restore computer operations within a reasonable time frame.

### **Recommendation 11**

We recommend that the campus develop written operating and recovery procedures for business units to assist business 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.

### **Campus Response**

We concur with the recommendation. Given the size of our student population, 650 students, it is anticipated that we could manually cover our current business operations for a prolonged system outage without a great deal of difficulty. We will update our written operating and recovery procedures for such a disaster by October 31, 2003.

## **DATA CENTER INTRUSION DETECTION**

The campus did not have intrusion detection equipment to monitor unauthorized access to the data center after business hours.

SAM §4842.2 states that physical security measures must provide for management control of physical access to information assets by agency staff and outsiders; prevention, detection, and suppression of fires; prevention, detection, and minimization of water damage; and protection, detection, and minimization of loss or disruption of operational capabilities due to electrical power fluctuations or failure.

The chief information officer stated that physical security equipment to enhance after hours protection had not been evaluated since most transaction processing systems have been moved to either the Sonoma campus or to the Unisys data center in Salt Lake City.

Lack of after hour intrusion detection equipment increases the risk of unauthorized access during non-business hours and could cause the campus to lose equipment necessary to support local data processing services.

### **Recommendation 12**

We recommend that the campus obtain intrusion detection equipment to monitor access to the data center during non-business hours.

**Campus Response**

We concur with this recommendation. A motion detector is in the process of being installed in the data center. It will be fully operational by June 30, 2003.

**INVESTMENTS**

Investment income was reinvested rather than distributed back to trust accounts as required by campus policy.

State University Administrative Manual (SUAM) §3824 states that the campus president may define the rules for distribution of interest income, except where interest income is defined in instruments such as a bond resolution, trust project agreement, and federal funding contract.

CMA *Investment Policy* states that interest income will be posted to the pool account monthly and distributed from the pool account quarterly. Participating trusts are to be given annual reports for the fiscal year.

The vice president of financial services indicated that the campus policy needed to be revised.

When investment earnings are not redistributed back to the appropriate trust accounts, trust account managers are not able to fully utilize their funds.

**Recommendation 13**

We recommend that the campus take steps to ensure that investment earnings are credited to trust accounts as required by campus policy.

**Campus Response**

We concur with this recommendation. We have done the preliminary research for the accounts that created the current amount of unallocated earnings. We will have those amounts allocated by June 30, 2003. We will review the current campus investment policy and make changes to same, if necessary, and strengthen procedures to ensure compliance with the policy. This will be reviewed and implemented by September 30, 2003.

## RECONCILIATIONS

Reconciliations were not always timely prepared.

The uncleared collections account was not being reconciled on a timely basis. In addition, we noted that housing fee and bank reconciliations did not identify the name of the preparer or reviewer and the date of their preparation and review.

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

SAM §7908 states that all reconciliations will show the names of the preparer and the reviewer and the dates prepared and reviewed.

The controller indicated that campus priorities for the implementation of PeopleSoft and meeting other essential accounting responsibilities had created challenges to performing the uncleared collections reconciliation in a timely manner.

Failure to timely complete reconciliations increases the risk that errors and irregularities will not be promptly detected.

### **Recommendation 14**

We recommend that the campus strengthen procedures to ensure that:

- a. Uncleared collections reconciliations are performed in a timely manner.
- b. Housing fee and bank reconciliations are signed and dated by the preparer and reviewer.

### **Campus Response**

We concur with this recommendation. As reported in recommendation 4, we are also in the process of filling a general ledger position and anticipate strengthening our reconciliation procedures by September 1, 2003.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
William Eisenhardt	President
Lee Allen	Director, Facilities Management
Janice Beitler	Accountant II
Marjo Crowley	Director of Human Resources
Vineeta Dhillon	Buyer
Pam Elbeck	Accounts Payable Technician
Edward Gerry	Skilled Laborer, Receiving
Gale Gomez	Cashier
Jill Johns	Budget Officer
John Keever	Vice President of Marine Programs and Commanding Officer, Training Ship Golden Bear
Bonnie King	Accounts Payable Lead
Sylvester Morris	Director, Public Safety
Mark Nickerson	Vice President of Financial Affairs
John Petrosky	Director of Dining Services
Diane Rawicz	Director of CMA Services
Christy Redford	Accounting Manager
Cheri Sims	Payroll Technician
Earl Summers	Chief Information Officer
Kenneth Toet	Controller, CMA and CMA Foundation
Shelrey Woodson	Course Coordinator

## **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.



**RECEIVED  
UNIVERSITY AUDITOR**

**JUN 10 2003**

**THE CALIFORNIA STATE  
UNIVERSITY**

June 16, 2003

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802-210

Dear Mr. Mandel:

Enclosed is the California Maritime Academy's response to FISMA Audit Report No. 02-09. I believe this response satisfactorily addresses all concerns and findings presented in the report. Individuals have been assigned responsibility for correcting and/or implementing the findings and my Chief Financial Officer will monitor progress and notify your staff when changes have been made and items completed.

As indicated in the exit conference, we wish to commend the professionalism and assistance of your staff, especially Mr. Mike Perry, during the audit engagement. We believe these changes will strengthen CMA's fiduciary position and increase campus efficiency and effectiveness.

Sincerely,

William B. Eisenhardt  
President

WBE:skb  
Enclosure

cc: Mark Nickerson  
Ken Toet

**THE CALIFORNIA MARITIME ACADEMY**

OFFICE OF THE PRESIDENT 200 Maritime Academy Drive, Vallejo, CA 94590-8181 • PHONE (707) 654-1010 • FAX (707) 654-1013 • [www.csum.edu](http://www.csum.edu)

**FISMA**  
**CALIFORNIA MARITIME ACADEMY**

**REPORT NO. 02-09**

**CASH RECEIPTS**

**CASHIERING**

**Recommendation 1**

We recommend that the campus:

- a. Establish proper accountability over dining hall cash receipts, including the issuance of receipts for cash payments.
- b. Maintain a record of individuals who have access to the dining hall safe and the date the combination was last changed.

**Campus Response**

We concur with the recommendation. We have discussed the weakness of recording and accountability of cash receipts with the director of CMA Services. It was agreed to work with the foodservice managers and have written cash handling procedures for the dining hall in place prior to September 1, 2003. Effective immediately, all daily meal purchases will be issued a register receipt. We have also created a log to record the individuals who have access to the dining hall safe and the date the combination was last changed.

**ONECARD ACCOUNTS**

**Recommendation 2**

We recommend that the campus restrict access to OneCard accounts.

**Campus Response**

We concur with the recommendation. Security clearances have been modified and the information staff no longer has the capability to access or modify OneCard account values.

## ACCOUNTS RECEIVABLE

### GENERAL FUND REIMBURSEMENTS

#### Recommendation 3

We recommend that the campus:

- a. Complete a written cost allocation plan in accordance with EO No. 753, including approval by the campus chief financial officer, and establish procedures to ensure that the plan is updated and approved on an annual basis.
- b. Conduct a study to determine the completeness and accuracy of the chargeback rates currently in effect and update and/or add additional chargeback rates, as warranted.

#### Campus Response

We concur with the recommendation. A chargeback committee, chaired by the university controller, has been established to implement a comprehensive and detailed cost allocation plan in accordance with EO No. 753. This committee will also study the completeness and accuracy of the chargeback rates used. The cost allocation plan will be implemented by November 1, 2003.

## ACCOUNTS RECEIVABLE FOLLOW-UP

#### Recommendation 4

We recommend that the campus strengthen procedures to ensure timely follow-up for accounts receivables.

#### Campus Response

We concur with the recommendation. The California Maritime Academy has recently become one of the campuses of the California State University. Because of CMA's relatively small size and historically low funding levels combined with the additional administrative requirements of the CSU, CMA is experiencing budgetary, organizational, and work flow issues. At the request of CMA and The California State University Chancellor's Office, K. Sott Hughes Associates conducted a Financial and Organization Design Study. Portions of the report addressed the minimum staffing levels required to deliver acceptable service and meet appropriate internal control requirements. In response to that report as well as our FISMA findings, authorization to hire two additional positions in the accounting department was granted. We anticipate hiring an accounts receivable position and strengthening collection procedures by September 1, 2003.

## PURCHASING

#### Recommendation 5

We recommend that the campus review and appropriately restrict access to the vendor master file.

**Campus Response**

We concur with the recommendation. Access to the vendor master file will be restricted to appropriate personnel by June 30, 2003.

**CASH DISBURSEMENTS****FOOD SERVICE PAYMENTS****Recommendation 6**

We recommend that the campus establish procedures to validate the accuracy and/or reasonableness of charges for food products, supplies and services.

**Campus Response**

We concur with the recommendation. We will develop procedures to internally audit the Chartwells invoices for accuracy and/or reasonableness. The audit procedures will be performed at the end of each semester as well as upon the return of the Golden Bear from the summer cruises. It is anticipated that each audit will vouch information on the Chartwells invoices back to the original purchases as well as analytical review of the costs. The audit procedures will be in place by September 1, 2003.

**CRUISE ACCOUNTING REVIEW****Recommendation 7**

We recommend that the campus perform and document an overall review of training cruise accounting.

**Campus Response**

We concur with the recommendation. Procedures for a review of the accounting for training cruises shall be implemented. The review will take place annually after completion of the second cruise each year. We expect that the review will strengthen controls over cruise accounting and provide additional management information applicable to planning future cruises. Our review of the training cruise accounting will be completed prior to October 31, 2003.

**PAYROLL AND PERSONNEL****Recommendation 8**

We recommend that the campus strengthen controls and procedures to ensure that excess CTO hours are paid in accordance with respective collective bargaining agreements.

**Campus Response**

We concur with the recommendation. All noncompliant instances have been corrected and additional controls to ensure excess CTO hours are paid in accordance to bargaining agreements will be in place by July 31, 2003.

**FIXED ASSETS****PROPERTY ACCOUNTING****Recommendation 9**

We recommend that the campus:

- a. Update, maintain, and fully utilize the computerized fixed asset inventory system.
- b. Establish procedures to ensure that all state property is tagged after acquisition.
- c. Perform reconciliations of acquisitions and dispositions of capitalized property with amounts recorded in the property ledger on a monthly or at least quarterly basis.
- d. Establish procedures to perform a physical inventory at least every three years, including a reconciliation of the count to accounting records and management oversight of resulting adjustments.

**Campus Response**

We concur with the recommendation(s). We will update the computerized fixed asset inventory system and establish procedures to ensure that state property is properly tagged by June 30, 2003. The campus has already completed an inventory of "sensitive assets" and taken steps to enhance security over those assets. The reconciliation of fixed asset accounts will be assigned to a designated responsible party and will be performed not less than quarterly. Procedures to perform a physical inventory every three years will be established. A physical inventory was completed at June 30, 2002 as part of the GAAP requirements. That inventory will be the basis for updating our computerized fixed asset inventory system and establishes the starting point to carry forward from. It is our goal to have the entire fixed asset control system in place and operational by October 1, 2003.

**PROPERTY SURVEY****Recommendation 10**

We recommend that the campus establish a property survey board and procedures to ensure that all property disposals are recorded on property survey reports for review and approval by the board.

**Campus Response**

We concur with the recommendation. A property survey board will be reestablished as part of our total effort to shore up controls over the university's fixed assets. Procedures to ensure that all property disposals are properly recorded, reviewed and approved will be implemented. As stated in recommendation 9, our goal is to have everything in place by October 1, 2003.

## FISCAL INFORMATION TECHNOLOGY

### DISASTER RECOVERY PLAN

#### Recommendation 11

We recommend that the campus develop written operating and recovery procedures for business units to assist business 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.

#### Campus Response

We concur with the recommendation. Given the size of our student population, 650 students, it is anticipated that we could manually cover our current business operations for a prolonged system outage without a great deal of difficulty. We will update our written operating and recovery procedures for such a disaster by October 31, 2003.

### DATA CENTER INTRUSION DETECTION

#### Recommendation 12

We recommend that the campus obtain intrusion detection equipment to monitor access to the data center during non-business hours.

#### Campus Response

We concur with this recommendation. A motion detector is in the process of being installed in the data center. It will be fully operational by June 30, 2003.

## INVESTMENTS

#### Recommendation 13

We recommend that the campus take steps to ensure that investment earnings are credited to trust accounts as required by campus policy.

#### Campus Response

We concur with this recommendation. We have done the preliminary research for the accounts that created the current amount of unallocated earnings. We will have those amounts allocated by June 30, 2003. We will review the current campus investment policy and make changes to same, if necessary, and strengthen procedures to ensure compliance with the policy. This will be reviewed and implemented by September 30, 2003.

## RECONCILIATIONS

### Recommendation 14

We recommend that the campus strengthen procedures to ensure that:

- a. Uncleared collections reconciliations are performed in a timely manner.
- b. Housing fee and bank reconciliations are signed and dated by the preparer and reviewer.

### Campus Response

We concur with this recommendation. As reported in recommendation 4, we are also in the process of filling a general ledger position and anticipate strengthening our reconciliation procedures by September 1, 2003.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

July 14, 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 02-09 on *FISMA*,  
California Maritime Academy

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 14, 2003, I accept the response as submitted with the draft final report on *FISMA*, California Maritime Academy.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. William Eisenhardt, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS