

FISMA

**CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD**

**Report Number 03-10
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THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CSU	California State University
CSUB	California State University, Bakersfield
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
PMCP	Policy Manual for Contracting and Procurement
SAM	State Administrative Manual
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete internal control audits (covering accounting and fiscal compliance practices) in accordance with the *Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by Government Code Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

We visited the California State University, Bakersfield (CSUB) campus from December 8, 2003, through February 5, 2004, and made a study and evaluation of the accounting and administrative control in effect as of February 5, 2004. This report represents our biennial review.

CSUB 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: accounts receivable, revolving fund, fixed assets, and trust funds. 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, CSUB's accounting and administrative control in effect as of February 5, 2004, 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.

The following summary provides 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 [6]

Policies and procedures at the student health center did not address the issuance of refunds, and access to the safe combination was not adequately safeguarded. Refunds were issued at the student health center without obtaining the customer's signature, and the safe combination was kept in a desk drawer that was accessible to all employees in the health center.

ACCOUNTS RECEIVABLE [7]

Controls over non-student receivables did not ensure timely collection and billing for services provided. A review of 12 non-student outstanding receivables dated between July 2002 and June 2003 disclosed no evidence of collection efforts in all instances. A review of ten invoices issued to the Foundation between July 2003 and November 2003 showed that six were prepared between 2 and 11 months after the services were provided.

PURCHASING [8]

Library personnel performed purchasing functions without a written delegation of authority.

REVOLVING FUND [8]

Certain petty cash and change funds were inappropriately expensed and/or lacked a receipt of custody. A review of 15 petty cash and change funds disclosed that 6 had been expensed at the time of their creation, instead of being appropriately established as an asset, and three did not have a receipt of custody on file. Additionally, salary advances were not always cleared in a timely manner. A review of ten outstanding salary advance transactions disclosed that four transactions had not been resolved in a timely manner. These transactions had originated in 2002.

PAYROLL AND PERSONNEL [10]

Undelivered salary warrants were not remitted to the State Controller's Office timely. A review of undelivered salary warrants at February 3, 2004, disclosed 48 warrants dated between July 31, 2002, and October 29, 2003. In addition, procedures for monitoring compliance with the CSU additional employment policy had not been finalized.

FIXED ASSETS [12]

Certain departments did not follow existing campus procedures for loaning university property to employees for off-campus use and completing lost/stolen report forms. Equipment and material checkout forms had not been completed for eight laptop computers, which were taken off-campus by employees, and lost/stolen reports did not include details of the precautions in effect to prevent future losses in 11 of 15 instances reviewed. In addition, differences between physical inventory counts and campus property records were not promptly resolved. As of January 2004, the campus had completed the current physical inventory and reconciled inventory counts to property records for all but one building. However, of the 9,142 active items reflected in the property records, 1,099 (12%) were shown as “unknown” status. These items were valued at \$1,793,332, represented 8 percent of the total active items valued at \$21,338,267, and had been in an “unknown” status for approximately two years.

FISCAL INFORMATION TECHNOLOGY [14]

Accounts existed on the financial computer system that did not expire and had not been accessed in an inordinate length of time, which in some cases exceeded two years. In addition, the computer room did not have intrusion detection devices to effectively detect unauthorized access during non-business hours.

TRUST FUNDS [16]

Trust fund expenditures were not always appropriate, adequately supported, and properly approved; and trust agreements were not always complete and updated. A review of 23 expenditures disclosed that an employee tuition fee waiver was paid from fees collected from athletic facilities rentals, three expenditures did not include an explanation of the business purpose for the expenditure, and two were not approved by an authorized individual per the trust agreement. A review of 11 trust fund agreements disclosed that 2 agreements had not been updated after their expiration dates in September 2002, and the expected duration was not indicated on one other agreement.

INTRODUCTION

PURPOSE

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

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Physical computer controls are in place and functioning.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

SCOPE AND METHODOLOGY

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. 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 2002/03 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 2003 to February 2003. 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.
- ▶ 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Policies and procedures at the student health center did not address the issuance of refunds, and access to the safe combination was not adequately safeguarded.

We found that refunds were issued at the student health center without obtaining the customer's signature, and the safe combination was kept in a desk drawer that was accessible to all employees in the health center.

State Administrative Manual (SAM) §20050 states that there should be an established system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The manager of student financial services stated that the health center staff had not received complete training regarding refund procedures. The director of health services stated that the recent absence of current staff familiar with health center procedures resulted in minimal oversight of the front area.

Lack of adequate refund policies and security over cash receipts increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Establish policies and procedures for the issuance of refunds at the student health center that include obtaining customer signatures.
- b. Restrict access to the safe combination at the student health center.

Campus Response

- a. We concur. The refund policy and procedures have been updated and are fully compliant with the Financial Integrity and State Manager's Accountability Act (FISMA) audit recommendations relating to issuance of refunds at the student health center.

Anticipated completion date: July 2004

- b. We concur. We have implemented guidelines that will assure the safe combination is restricted to key personnel in the Health Center.

Anticipated completion date: July 2004

ACCOUNTS RECEIVABLE

Controls over non-student receivables did not ensure timely collection and billing for services provided.

- ▶ Our review of 12 non-student outstanding receivables dated between July 2002 and June 2003 disclosed no evidence of collection efforts in all instances.
- ▶ A review of ten invoices issued to the Foundation between July 2003 and November 2003 showed that six were prepared between 2 and 11 months after the services were provided.

SAM §8776.6 and State University Administrative Manual (SUAM) §3822 require the prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls.

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

The manager of student financial services stated that they recently discovered that many campus departments were inappropriately attempting to perform the billing process from their department, rather than informing the student financial services office. In addition, she stated that campus and Foundation operations communicated often and knew reimbursements and billings were due such that formal billings were not always prepared with the same urgency as for off-campus billings.

Failure to properly manage receivables and timely bill auxiliary organizations negatively impacts cash flow and reduces the likelihood that all monies owed will be collected.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that non-student accounts receivable are timely invoiced and promptly pursued for collection.

Campus Response

We concur. Specific collection procedures relating to non-student accounts receivable have been designed and are now in place for 30-day, 60-day, and 90-day action. A lead employee has been assigned the responsibility of overseeing the day-to-day operation of this function to ensure timely invoicing and collection.

Anticipated completion date: July 2004

PURCHASING

Library personnel performed purchasing functions without a written delegation of authority.

Executive Order 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, delegates the authority to each campus president or designee to acquire personal property and services including information technology resources goods and services where applicable provisions of the *California State University (CSU) Policy Manual for Contracting and Procurement (PMCP)*, issued and maintained by the Office of the Chancellor, have been followed.

CSU PMCP §102 states that should campus presidents choose to further delegate their purchasing authority, campuses must maintain documentation of such delegation.

The library director stated that this had been the campus practice for over 20 years, and since it had never been brought to his attention before, he was unaware of the requirement to have the president provide written delegation.

Not maintaining formalized delegations of authority for all procurement activities increases the risk of unauthorized activities.

Recommendation 3

We recommend that the campus obtain a formalized delegation of authority from the president for library purchasing.

Campus Response

We concur. On February 24, 2004, the university president provided formal delegation of authority for library purchasing.

REVOLVING FUND

PETTY CASH AND CHANGE FUNDS

Certain petty cash and change funds were inappropriately expensed and/or lacked a receipt of custody.

Our review of 15 petty cash and change funds disclosed that 6 had been expensed at the time of their creation, and 3 did not have a receipt of custody on file.

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

SAM §8111.2 requires personal responsibility for amounts advanced from the revolving fund. Transfers of custody will be accomplished only after the employees directly concerned perform a personal audit of the fund, and the newly assigned custodian gives a receipt to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting department.

The manager of student financial services stated that she did not understand why petty cash funds established from non-general funds could not be expensed and must be recorded as an asset. She further stated her belief that the documentation provided to establish the petty cash funds was adequate and did not require the completion of the petty cash/change fund custodial forms to establish these petty cash funds.

Inadequate administration of petty cash and change funds compromises accountability and increases the risk of misappropriation of funds.

Recommendation 4

We recommend that the campus strengthen petty cash and change fund procedures to ensure that:

- a. The funds are appropriately established and classified as assets.
- b. Custodial forms are completed and maintained on file for all funds.

Campus Response

- a. We concur. All funds currently established have been appropriately classified as assets. In addition, the campus has defined a process that will assure new requests for petty cash are classified as an asset at that time.

Anticipated completion date: July 2004

- b. We concur. A review of all custodial forms has been completed and departments have been requested to complete the appropriate forms for funds currently established. The campus procedures for establishing petty cash include the completion of appropriate paperwork as a step, and we will ensure this is enforced with new requests.

Anticipated completion date: July 2004

SALARY ADVANCES

Salary advances were not always cleared in a timely manner.

Our review of ten outstanding salary advance transactions disclosed that four transactions had not been resolved in a timely manner. These transactions had originated in 2002.

SUAM §3813 requires prompt clearance of salary advances. Generally, the time period for recovery of salary advances should not exceed 60 days.

The general accounting manager stated that a lack of communication between the accounts payable and payroll departments, as well as minimal staff availability due to the implementation of the new financial system, caused delays in follow-up.

Inadequate control over salary advances reduces the likelihood of collection, increases the risk that errors and omissions will go undetected, and may result in a loss of funds.

Recommendation 5

We recommend that the campus strengthen controls over salary advances to ensure that salary advances are resolved in a timely manner.

Campus Response

We concur. The campus will develop a procedure for clearing salary advances in a timely manner.

Anticipated completion date: September 2004

PAYROLL AND PERSONNEL

UNDELIVERED WARRANTS

Undelivered salary warrants were not remitted to the State Controller's Office timely.

Our review of undelivered salary warrants as of February 3, 2004, disclosed 48 warrants dated between July 31, 2002, and October 29, 2003.

SAM §8580.5 requires that salary warrants not delivered within 90 calendar days of receipt must be returned to the State Controller's Office for deposit to an escheat revenue account in the original fund that provides the resources to the state payroll revolving fund.

The manager of student financial services stated that this task had recently been transferred from the payroll office to the cashiering office, and training regarding the differences between escheating payroll checks and other checks was not completely understood by the personnel performing these tasks.

Untimely remittance of undeliverable salary warrants increases the risk of misappropriated funds.

Recommendation 6

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

Campus Response

We concur. The campus has established a procedure to review undelivered warrants on a monthly basis and transfer and remit warrants to the State Controller's Office on a timely basis.

Anticipated completion date: August 2004

ADDITIONAL EMPLOYMENT

Procedures for monitoring compliance with the CSU additional employment policy had not been finalized.

CSU directive Human Resources (HR) 2002-05, *Additional Employment Policy*, dated February 19, 2002, requires the campus to determine the extent of an employee's CSU workload prior to appointment to any position. It further indicates that the campus is responsible for developing appropriate guidelines for implementation and for developing procedures for prior approval and monitoring of all additional employment.

The provost/vice president of academic affairs stated that the campus was unable to get the information that was needed from the Foundation.

Lack of procedures for monitoring additional employment increases the risk of non-compliance with CSU policy.

Recommendation 7

We recommend that the campus finalize and implement monitoring controls for all additional employment, including record retention and distribution of the procedures to all employees involved in the process.

Campus Response

We concur. The campus is currently in the process of finalizing the additional employment policy with the Academic Senate, California State University, Bakersfield (CSUB) Foundation, and the Grants and Sponsored Research Division of the university. The policy includes a process for record retention and distribution of procedures to all employees involved.

Anticipated completion date: November 2004

FIXED ASSETS

OFF-CAMPUS USE

Certain departments did not follow existing campus control procedures for loaning university property to employees for off-campus use.

We reviewed 14 laptop computers and found that an equipment and material checkout form had not been completed for 8 of the computers, which were taken off-campus by employees.

The CSUB *Property Policy* states that CSUB equipment and material may be made available to faculty, students, and staff for official university business from the various department equipment stock rooms and other department equipment and material in the custody of the departments. The authorized person(s) in each department will officially record the temporary transfer on a personal loan basis by the use of the inventory equipment and material checkout form.

The director of facilities management stated his belief that many departments did not acknowledge laptops as equipment and, therefore, did not follow campus procedures.

Inadequate control over the off-campus use of property reduces accountability and increases the risk of theft and/or loss of state property.

Recommendation 8

We recommend that the campus strengthen controls over the loaning of university property to employees for off-campus use.

Campus Response

We concur. The property department will increase communication to the campus community and management personnel to ensure proper procedures are adhered to when university property is checked out to employees for off-campus use.

Anticipated completion date: September 2004

PHYSICAL INVENTORY

Differences between physical inventory counts and campus property records were not promptly resolved.

As of January 2004, the campus had completed the current physical inventory and reconciled inventory counts to property records for all but one building. However, of the 9,142 active items reflected in the property records, 1,099 (12%) were shown as “unknown” status. These items were valued at \$1,793,332, represented 8 percent of the total active items valued at \$21,338,267, and had been in an “unknown” status for approximately two years.

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

The director of facilities management stated that the individual departments were not responsive in returning the tracking sheets to determine where the inventory was located.

Untimely reconciliations of physical inventories with property records increase the risk of misstated inventory and exposure to theft or loss of state property.

Recommendation 9

We recommend that the campus strengthen procedures to research, identify, and resolve differences between physical counts and property records.

Campus Response

We concur. The university has issued a memo to management personnel outlining their responsibility for resolving unknown inventory issues. We will continue to strengthen procedures that will enforce compliance with the campus property policy in this area.

Anticipated completion date: September 2004

LOST/STOLEN PROPERTY

Campus lost/stolen report forms were not properly completed.

Our review of 15 lost/stolen reports from 2002 and 2003 disclosed that details of the precautions in effect to prevent future losses had not been included in 11 reports.

The CSUB *Asset Management Property Procedures* state that a department should contact campus security immediately, complete a lost/stolen report form, and submit the form to campus security with a copy to asset management when equipment is lost or stolen.

SAM §8643 states that whenever property is lost, departments will prepare a property survey report. The report will contain a description of the events; precautions to be taken to prevent repeat situations; and a statement that a local law enforcement agency has been notified.

The director of facilities management stated that property department personnel did not understand that this information was required, not optional.

Incomplete lost/stolen reports reduce accountability over state property.

Recommendation 10

We recommend that the campus strengthen property survey procedures to ensure that lost/stolen report forms are properly completed.

Campus Response

We concur. The campus will revise the loss/stolen report form and corresponding instructions to ensure that all necessary sections are fully completed.

Anticipated completion date: September 2004

FISCAL INFORMATION TECHNOLOGY

SECURITY CONTROLS OVER COMPUTER ACCOUNTS

Security administration procedures did not provide for the timely deletion of old or unused computer accounts, and password controls were not consistently set to provide effective control.

Specifically, we noted computer accounts that:

- ▶ Did not require password expiration.
- ▶ Were vendor default accounts that should have been removed.
- ▶ Were generic accounts that were not assigned to a specific individual.
- ▶ Were old accounts that had never been used or accessed in an inordinate length of time, which in some cases exceeded two years.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective account and password management. Effective password management is considered to include an appropriate and enforced frequency of password changes and automatic disabling of inactive accounts.

The director of administrative computing services stated that when the campus reactivated the required automatic password changes, some of the older account holder accounts were not included.

Inadequate control over password expiration and removal of obsolete or unused accounts increases the risk of unauthorized and undetected access to campus systems and confidential data.

Recommendation 11

We recommend that the campus implement automatic password expiration for all accounts, discontinue use of generic accounts that are not assigned to a specific individual, and remove accounts from the system that have not been accessed within the past term.

Campus Response

We concur. The campus is currently reviewing the areas of password expiration, use of generic accounts, and removal of accounts not recently accessed and will address each of these concerns by September 2004.

DATA CENTER PHYSICAL SECURITY

The computer room did not have intrusion detection devices to effectively detect unauthorized access during non-business hours.

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 administrative computing services stated that after-hours security provisions had not been finalized as part of the recent data center construction.

Ineffective security controls over access to the data center increase the risk of accidental or malicious damage or theft to equipment and data that is essential to the continued operation of the campus.

Recommendation 12

We recommend that the campus implement physical intrusion detection devices to monitor access to the data center during non-business hours.

Campus Response

We concur. The campus is reviewing several options to secure and monitor access to the computer room in the Data Center during non-business hours. Options include additional electronic card locks, wire-meshed windows on the doors to the operating room, and intrusion detection devices. Once the cost analysis of each of these options is complete, we will proceed to implement devices to secure this area.

Anticipated completion date: November 2004

TRUST FUNDS

Trust fund expenditures were not always appropriate, adequately supported, and properly approved; and trust agreements were not always complete and updated.

- ▶ Our review of 23 expenditures disclosed one instance where an employee tuition fee waiver was inappropriately paid from fees collected from athletic facilities rentals. In addition, an explanation of the business purpose for the expenditure was not included in three instances, and an authorized individual per the trust agreement did not approve the expenditures in two instances.
- ▶ Our review of 11 trust fund agreements disclosed that 2 agreements had not been updated after their expiration dates in September 2002, and the expected duration was not indicated on one other agreement.

Education Code §89721 states, in part, that a trust fund shall be legally established using monies received in connection with 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.

SAM §19440 states that each trust account established shall be supported by documentation as to the type of trust donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of monies for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

The general accounting manager stated that accounts payable believed that the documentation submitted contained enough data to be consistent with the purpose of the trust based on the signatures of the employees submitting the documentation. She further stated that when transfers were made, staff failed to look for the same approval signatures. Additionally, she stated that new personnel who were accepting agreements were not aware of all the requirements for an agreement to be complete and ready to file.

Failure to assure that all expenditures are in accordance with trust agreements and properly approved increases the risk of inappropriate expenditures and loss, while lack of complete and current trust fund documentation increases the risk of improper fund management.

Recommendation 13

We recommend that the campus:

- a. Ensure that tuition fee waivers are not paid from athletic facilities rentals fees in the future.
- b. Strengthen controls to ensure that trust expenditures are only made in accordance with trust agreements, adequately supported, and properly approved.
- c. Strengthen controls to ensure that all trust fund agreements are properly completed and updated upon expiration.

Campus Response

We concur. The campus has delegated an individual to be responsible for reviewing trust agreements to ensure they are active and properly completed. In addition, we will strengthen procedures to ensure all expenditures are approved, contain supporting documentation, and are made in accordance with the requirements outlined in the trust agreement.

Anticipated completion date: September 2004

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Horace Mitchell	President
Tomás A. Arciniega	President (at time of review)
Cassie Alvarez	Administrative Support Assistant, Health Services
Marge Becas	Supervisor, Student Financial Services
Jane Bedford	Manager, Student Financial Services
Sherry Bennett	Technical Services Supervisor, Library
Karen Briggs	Accounts Payable Lead
Bob Brown	Director, Facilities Management
Tracy Brown	Accountant II
Stephanie Burgess	Lead Cashier
Liz Cabral	Accountant I
Melinda Conrad	Accounts Payable Clerk
Don Gadbury	Receiving
Kellie Garcia	Director, Human Resources
Jim George	Provost/Vice President, Academic Affairs
Rod Hersberger	Director, Library
Wanda Lacava	Director, Academic Affairs
Irene Leung	Director, Administrative Computing Services
Marina Manzano	Administrative Support Assistant, Procurement and Support Services
Janet Martin	Director, Payroll Services
Renee McQueen	Medical Records Technician, Health Services
Suzanne Muller	General Accounting Manager
Claudia Neal	Director, Public Safety/University Police
Michael A. Neal	Vice President, Business and Administrative Services
Oscar Rico	Director, Health Services
Gina Rizo	Administrative Support Assistant, Antelope Valley Campus
Jan Rogers	Assistant to the Dean, Extended University
Chris Shiery	Accounts Payable Clerk
Doug Smith	Asset Management Clerk, Facilities Management
Sharon Taylor	Assistant Vice President, Fiscal Services
Mike Williams	Director, Procurement and Support Services
Frank Yap	Technical Coordinator, Fiscal Services

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls that 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 recordkeeping 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.



Office of the Vice President
of Business and Administrative Services
California State University, Bakersfield
38 ADM
9001 Stockdale Highway
Bakersfield, California 93311-1022

661/664-2287
FAX 661/665-6923
Email: mneal@csub.edu



July 1, 2004

Mr. Larry Mandel, University Auditor
c/o The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

**Re: Campus Response to Recommendations of FISMA Audit Report
Number 03-10, California State University, Bakersfield**

Dear Mr. Mandel:

In accordance with the Policies and Procedures for the Office of the University Auditor, enclosed is the campus response to recommendations one through thirteen of the FISMA Audit Report Number 03-10. A Diskette with the electronic version of the response document is also enclosed. This response is respectfully submitted to the Chancellor for review and acceptance.

Please do not hesitate to contact me should additional information be required.

Cordially,

Michael Neal
Vice President for Business & Administrative Services

/bw

Enclosure

cc: Ms. Sharon A. Taylor, Assistant Vice President for Fiscal & Support Services

"ATTITUDE MAKES THE DIFFERENCE"

**CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD**

**FISMA
AUDIT REPORT NO. 03-10**

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Establish policies and procedures for the issuance of refunds at the student health center that include obtaining customer signatures.
- b. Restrict access to the safe combination at the student health center.

Campus Response

- a. We concur. The refund policy and procedures have been updated and are fully compliant with the FISMA Audit recommendations relating to issuance of refunds at the student health center. (Jul 04)
- b. We concur. We have implemented guidelines that will assure the safe combination is restricted to key personnel in the Health Center. (Jul 04)

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus strengthen procedures to ensure that non-student accounts receivable are timely invoiced and promptly pursued for collection.

Campus Response

We concur. Specific collection procedures relating to non-student accounts receivable have been designed and are now in place for 30-day, 60-day and 90-day action. A lead employee has been assigned the responsibility of overseeing the day-to-day operation of this function to ensure timely invoicing and collection. (Jul 04)

PURCHASING

Recommendation 3

We recommend that the campus obtain a formalized delegation of authority from the president for library purchasing.

Campus Response

We concur. On February 24, 2004 the university president provided formal delegation of authority for library purchasing. (Jul 04)

REVOLVING FUND

PETTY CASH AND CHANGE FUNDS

Recommendation 4

We recommend that the campus strengthen petty cash and change fund procedures to ensure that:

- a. The funds are appropriately established and classified as assets.
- b. Custodial forms are completed and maintained on file for all funds.

Campus Response

- a. We concur. All funds currently established have been appropriately classified as assets. In addition, the campus has defined a process that will assure new requests for petty cash are classified as an asset at that time. (Jul 04)
- b. We concur. A review of all custodial forms has been completed and departments have been requested to complete the appropriate forms for funds currently established. The campus procedures for establishing petty cash include the completion of appropriate paperwork as a step and we will ensure this is enforced with new requests. (Jul 04)

SALARY ADVANCES

Recommendation 5

We recommend that the campus strengthen controls over salary advances to ensure that salary advances are resolved in a timely manner.

Campus Response

We concur. The campus will develop a procedure for clearing salary advances in a timely manner. (Sep 04)

PAYROLL AND PERSONNEL

UNDELIVERED WARRANTS

Recommendation 6

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

Campus Response

We concur. The campus has established a procedure to review undelivered warrants on a monthly basis and transfer and remit warrants to the State Controller's Office on a timely basis. (Aug 04)

ADDITIONAL EMPLOYMENT**Recommendation 7**

We recommend that the campus finalize and implement monitoring controls for all additional employment, including record retention and distribution of the procedures to all employees involved in the process.

Campus Response

We concur. The campus is currently in the process of finalizing the additional employment policy with the Academic Senate, CSUB Foundation, and the Grants and Sponsored Research Division of the university. The policy includes a process for record retention and distribution of procedures to all employees involved. (Nov 04)

FIXED ASSETS**OFF-CAMPUS USE****Recommendation 8**

We recommend that the campus strengthen controls over the loaning of university property to employees for off-campus use.

Campus Response

We concur. The property department will increase communication to the campus community and management personnel to ensure proper procedures are adhered to when university property is checked out to employees for off-campus use. (Sep 04)

PHYSICAL INVENTORY**Recommendation 9**

We recommend that the campus strengthen procedures to research, identify, and resolve differences between physical counts and property records.

Campus Response

We concur. The university has issued a memo to management personnel outlining their responsibility for resolving unknown inventory issues. We will continue to strengthen procedures that will enforce compliance with the campus property policy in this area. (Sep 04)

LOST/STOLEN PROPERTY

Recommendation 10

We recommend that the campus strengthen property survey procedures to ensure that lost/stolen report forms are properly completed.

Campus Response

We concur. The campus will revise the loss/stolen report form and corresponding instructions to ensure that all necessary sections are fully completed. (Sep 04)

FISCAL INFORMATION TECHNOLOGY

SECURITY CONTROLS OVER COMPUTER ACCOUNTS

Recommendation 11

We recommend that the campus implement automatic password expiration for all accounts, discontinue use of generic accounts that are not assigned to a specific individual, and remove accounts from the system that have not been accessed within the past term.

Campus Response

We concur. The campus is currently reviewing the areas of password expiration, use of generic accounts, and removal of accounts not recently accessed and will address each of these concerns by September, 2004.

DATA CENTER PHYSICAL SECURITY

Recommendation 12

We recommend that the campus implement physical intrusion detection devices to monitor access to the data center during non-business hours.

Campus Response

We concur. The campus is reviewing several options to secure and monitor access to the computer room in the Data Center during non-business hours. Options include additional electronic card locks, wire-meshed windows on the doors to the operating room, and intrusion detection devices. Once the cost analysis of each of these options is complete, we will proceed to implement devices to secure this area. (Nov 04)

TRUST FUNDS

Recommendation 13

We recommend that the campus:

- a. Ensure that tuition fee waivers are not paid from athletic facilities rentals fees in the future.
- b. Strengthen controls to ensure that trust expenditures are only made in accordance with trust agreements, adequately supported, and properly approved.
- c. Strengthen controls to ensure that all trust fund agreements are properly completed and updated upon expiration.

Campus Response

We concur. The campus has delegated an individual to be responsible for reviewing trust agreements to ensure they are active and properly completed. In addition, we will strengthen procedures to ensure all expenditures are approved, contain supporting documentation and are made in accordance with the requirements outlined in the trust agreement. (Sep 04)

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

July 26, 2004

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

MEMORANDUM

FRESNO

FULLERTON

TO: Mr. Larry Mandel
University Auditor

HAYWARD

FROM: Charles B. Reed
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-10 on *FISMA*,
California State University, Bakersfield

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of July 26, 2004, I accept the response as submitted with the draft final report on *FISMA*, California State University, Bakersfield.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/al

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Horace Mitchell, President
Michael A. Neal, Vice President for Business and Administrative Services
Sharon Taylor, Assistant Vice President for Fiscal and Support Services

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS