

FISMA

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

**Report Number 04-05
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ABBREVIATIONS

Cal Poly	California Polytechnic State University
CSU	California State University
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
PPT	Personnel and Payroll Transaction
SAM	State Administrative Manual
SCO	State Controller's Office
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. 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 biennial 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.

California Polytechnic State University, San Luis Obispo (Cal Poly) 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 (SAM), Education Code, Title 5, and Trustee policy.

We visited the Cal Poly campus from April 12, 2004, through May 27, 2004, and made a study and evaluation of the accounting and administrative control in effect as of May 27, 2004. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, purchasing, revolving funds, payroll and personnel, fixed assets, fiscal information technology, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, Cal Poly's accounting and administrative control in effect as of May 27, 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 changes 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 [7]

Certain activities that impact the control environment for cash receipts needed improvement. Cash receipt control duties were not adequately segregated at health and counseling services and the Mustang ticket office, and the safe combination at university police was not changed following the separation of two individuals. Additionally, the Mustang ticket office did not always deposit accumulated receipts within ten working days, one employee transported deposits even though receipts exceeded \$3,000, tickets issued for complimentary and trade-out purposes were not recorded to the general ledger, and ticket sales were not reconciled to the general ledger. Further, fiscal reports were not always provided to the campus fee advisory committee prior to consideration of a fee adjustment.

ACCOUNTS RECEIVABLE [11]

Approval for discharging uncollectible debts of \$1,000 or less was not documented.

PURCHASING [12]

Access to the vendor master file was not adequately controlled. Eighteen individuals had user IDs with update access to vendor information, including three staff members from contract and procurement services, two from accounting, six from accounts payable, two from student financial services, and five student assistants. In addition, campus procurement card controls did not ensure imposition of sanctions for misuse. A review of one cardholder's purchases for a three-month period disclosed that six personal purchases totaling \$583 were not reimbursed by the cardholder until identification by an accounts payable technician, and another personal purchase of \$1,800 that was not reimbursed by the cardholder until identification during this review. Although campus policy stated that unauthorized or misuse of the procurement card would result in an immediate two-year suspension, the individual's procurement card was not revoked until the aforementioned misuse was identified during the audit.

REVOLVING FUND [13]

Salary advances were not recovered timely. A review of ten salary advances disclosed that four salary advances totaling \$3,752 were outstanding between 4 to 23 months as of February 2004, and four other salary advances totaling \$6,015 were recovered between 5 to 11 months following issuance.

PAYROLL AND PERSONNEL [14]

The delegation of authority on file with the State Controller's Office (SCO) to authorize personnel and payroll transactions (PPT) was not kept current. A review of 45 PPT documents with effective dates between July 2002 and February 2004 disclosed that, in nine instances, the PPT document was authorized by an individual not included on the Signature Card Authorizations document on file with the SCO, Personnel/Payroll Services Division. In addition, Federal Form I-9 employment eligibility information was not always timely. A review of 20 new hires disclosed that the campus completed employment eligibility verification for eight employees between 4 and 25 days following the effective hire date. Further, employee separation procedures did not ensure timely payment of wages due and complete clearance documentation. A review of 15 employee separations disclosed that the final salary payment or salary advance was not completed within 72 hours after the effective separation date in eight instances, the campus clearance form was not on file in five instances, and the campus clearance form was not certified by facility services for the return of keys in two instances.

FIXED ASSETS [17]

Controls over property accounting did not ensure that property was properly valued and recorded. A review of 20 property acquisitions disclosed that the property value was not recorded at purchase price plus incidental costs incurred to put the item into place and ready for its intended use in six instances, contributed services received from a donor were valued at \$35,000 and erroneously recorded in the property ledger in another instance, and documentation was not on file to substantiate a property valuation at \$30,000 in one other instance.

FISCAL INFORMATION TECHNOLOGY [18]

Certain individuals had inappropriately been assigned Oracle IDs that allowed them to modify production PeopleSoft data.

TRUST FUNDS [19]

Trust agreements were not always on file and complete. A review of 76 trust accounts disclosed that trust account agreements were not on file in 9 instances, trust account documentation did not address time constraints in 12 instances, trust account documentation did not address reporting requirements in 21 instances, trust account documentation did not provide adequate instructions for closing the account and disposition of any unexpended balance in 11 instances, and trust account documentation did not address the use of monies for administrative or overhead costs in 32 instances. Further, trust fund projects did not always have positive fund balances. A review of trust account balances as of June 30, 2003, disclosed that 19 projects had negative fund balances ranging from \$32 to \$69,603.

RECONCILIATIONS [21]

Reconciliations were not always prepared in a complete and timely manner. Application fee reconciliations for the academic years ending June 2002 and June 2003 were not completed until January 2003 and November 2004, respectively. In addition, revolving fund reconciliations did not show the total cash on hand advanced for change and purchase funds. The change and cash purchase funds assigned totaled \$16,175.

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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.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual (SUAM) 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 May 2004. Our primary focus was on internal controls. Specifically, we reviewed and tested:

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- ▶ 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 accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ 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 May 27, 2004. 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

SATELLITE CASHIERING

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

The satellite cashiering locations reviewed included continuing education, health and counseling services, university police, and the Mustang ticket office.

Health and Counseling Services

The cashier was responsible for receiving and processing payments, completing the deposit slip, and performing the reconciliation between the daily cash register activity and the deposit slip.

State Administrative Manual (SAM) §8080.1 states, in part, "No one person shall perform more than one of the following 11 types of duties: ... (7) Receiving and depositing remittances ... (8) Inputting receipts information ... (10) Reconciling input to output."

The head of support services for health and counseling services stated that segregating duties for cash receipts and deposits was difficult to achieve due to the limited number of staff.

University Police

The safe combination at university police was not changed following the separation of two individuals with knowledge of the present combination.

SAM §8024 requires changing safe combinations when employees leave a department and retaining a record listing the names of individuals with knowledge of a department's safe combination and the date the combination was last changed.

The associate director of university police stated that the safe combination was not changed following the separation of student assistants with cashiering responsibility. She further stated that the safe was located in the dispatch office with restricted and monitored access on a 24-hour/7-days-a-week basis, and no individuals other than university police personnel were permitted to enter the dispatch office.

Mustang Ticket Office

- ▶ In certain instances, the ticket manager was required to receive payments and reconcile receipts to used-ticket stock.
- ▶ Accumulated receipts were not always deposited within ten working days.

- ▶ One employee transported deposits, even though receipts exceeded \$3,000, for basketball games.
- ▶ Checks received were not restrictively endorsed on the day of receipt.
- ▶ Tickets issued for complimentary and trade-out purposes were not recorded to the general ledger.
- ▶ Ticket sales were not reconciled to the general ledger.

SAM §8080.1 states, in part, "No one person shall perform more than one of the following 11 types of duties: ... (7) Receiving and depositing remittances ... (8) Inputting receipts information ... (10) Reconciling input to output."

SAM §8032.1 indicates that accumulated receipts of any amount will not remain undeposited for more than ten working days.

SAM §8032.4 states that a single employee will not transport more than \$3,000 in coin and currency at one time.

SAM §8034.1 requires checks and other negotiable instruments to be endorsed on the day they are received.

SAM §7901 states that the accuracy of accounting records may be proved partially by making certain reconciliations and verifications.

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

The associate director of business operations for athletes stated that segregation of receipting duties was difficult, due to the limited number of ticket office staff at events. He further stated that the other noted conditions were due to a lack of awareness or consideration of certain requirements and control processes.

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

Recommendation 1

We recommend that the campus:

- a. Review cashiering activities at health and counseling services and the Mustang ticket office and take appropriate action to either segregate duties or establish effective mitigating controls.
- b. Change the safe combination at university police and strengthen procedures to ensure that the safe combination is changed when employees with knowledge of the combination separate from the department.
- c. Establish and implement procedures to adequately control and secure cash receipts from athletic sporting events, and deposit accumulated receipts within ten working days.

- d. Ensure that checks received by the Mustang ticket office are restrictively endorsed by the end of the day.
- e. Record complimentary tickets and trade-out transactions to the general ledger.
- f. Reconcile ticket sales to the general ledger on a monthly basis.

Campus Response

- a. We concur. Health and counseling services has taken steps to further segregate duties for cashiering activities. The Mustang ticket office has also taken steps to segregate duties where possible and institute mitigating controls where not.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- b. We concur. The university police safe combination has been changed and procedures have been put into place to ensure that the safe combination is changed when employees with knowledge of the combination separate from the department.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- c. We concur. Procedures have been established and implemented to adequately control and secure cash receipts from athletic sporting events and to make deposits of accumulated receipts within ten working days.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- d. We concur. The Mustang ticket office has instituted procedures to ensure that all checks are restrictively endorsed on the day that they are received.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- e. A record is kept of all complimentary tickets and trade-out transactions. This information will be utilized to develop a formal reconciliation of ticket numbers for trade-out and complimentary tickets to total number of tickets.

Anticipated Completion Date: June 30, 2005.

- f. We concur. A subsidiary ledger is kept of all ticket sales. This information will be utilized to develop a reconciliation of ticket sales to the general ledger.

Anticipated Completion Date: June 30, 2005.

FEE AUTHORIZATION

Fiscal reports were not always provided to the campus fee advisory committee prior to consideration of a fee adjustment.

We found that, although fee adjustment proposals and fiscal reports were submitted to and reviewed by budget and analytic business services prior to campus fee advisory committee consideration of fee adjustments, the fiscal reports were not forwarded to the committee for its consideration. The campus fee advisory committee would only receive fiscal reports if they were included in materials presented to the committee by the requesting department. Our review of 20 fee actions disclosed that a statement of revenues and expenditures was not presented to the campus fee advisory committee for consideration in six of nine applicable instances, which included the following fees:

- ▶ Extension and special session credit courses in June 2002.
- ▶ Miscellaneous course fee for Equine Management (ASCI0214) in November 2002.
- ▶ Miscellaneous course fee for Principles of Horticulture and Crop Science (HCSX120) in May 2003.
- ▶ Miscellaneous course fee for Basic Electronics Manufacturing (IME0156) in May 2003.
- ▶ Miscellaneous course fee for Electronics Manufacturing (IME0157) in May 2003.
- ▶ Parking fines in June 2003.

Executive Order (EO) 740, *The California State University (CSU) Student Fee Policy*, dated April 13, 2000, requires that the campus chief financial officer develop a statement of revenues and expenditures providing a minimum of one year of actual costs and two years of projected revenues and expenditures for the fee revenue supported activity for consideration by the campus fee advisory committee prior to the campus president adjusting fees (under *Responsibility*, Attachment IA, page 2 of 3).

The business initiatives analyst stated that the campus procedures for fee adjustments required a thorough financial review of the proposed fee by budget staff including all factors influencing the proposed fee increase. He further stated that the campus interpretation of the systemwide student fee policy objectives was sufficiently addressed through its current evaluation process, and the campus adhered to the general guidelines as set forth in EO 740.

Insufficient fiscal reporting to evidence fee-supported activities increases the risk that the campus fee advisory committee will not be fully informed prior to providing advice to the campus president.

Recommendation 2

We recommend that the campus strengthen controls to ensure that the campus fee advisory committee is presented with at least the minimum amount of fiscal data, as prescribed in EO 740, prior to providing advice to the campus president.

Campus Response

We concur. All future fee proposals forwarded to the campus fee advisory committee will include the transmittal of appropriate fiscal data as prescribed by EO 740.

Anticipated Completion Date: Proof of completion to be sent by February 28, 2005.

ACCOUNTS RECEIVABLE

Approval for discharging uncollectible debts of \$1,000 or less was not documented.

California Polytechnic State University, San Luis Obispo (Cal Poly) Student Accounts Procedure #65.02.03.01, *Accounts Receivable Write Offs: Invoices and Billing and Receivable, Student Accounts Receivable*, dated February 4, 2002, indicates that the assistant director of student financial services will record a write-off for student accounts determined to be uncollectible and forward the entry with a memorandum to the director of fiscal services for approval.

EO 616, *Discharge of Accountability*, dated April 19, 1994, delegates to the campus president or designee the authority to discharge debts of \$1,000 or less, which are either uncollectible or the amounts involved do not justify the cost of collections.

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

The assistant director of student financial services stated his belief that the controls over the write-off of uncollectible accounts were adequate.

Failure to document the prior approval of local discharge from accountability increases the risk of unauthorized write-offs.

Recommendation 3

We recommend that the campus strengthen controls to ensure written documentation of the authorization to discharge debts of \$1,000 or less.

Campus Response

We concur. The university has strengthened procedures to require written authorization by an appropriate supervisor or manager within the student accounts office in order to approve the discharge of debts of \$1,000 or less.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

PURCHASING

VENDOR MASTER FILE

Access to the vendor master file was not adequately controlled.

We found that 18 individuals had user IDs with update access to vendor information, including three staff members from contract and procurement services, two from accounting, six from accounts payable, two from student financial services, and five student assistants.

SAM §8080.1 states that each state agency should establish and maintain an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, "No one person shall perform more than one of the following 11 types of duties: ... (3) Maintaining records file and operating mechanized equipment ... (4) Initiating disbursement document ... (5) Approving disbursement document ... (6) Inputting disbursement information."

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

The director of fiscal services stated that accounts payable staff members required the ability to create vendors due to the limited inquiry access ability to view pertinent vendor fields. She further stated that other staff members in accounting and student financial services, as well as student assistants, needed vendor update privileges during the 8.4 PeopleSoft upgrade, created accounts receivable vendors, or served as backup to the accounts payable department. The associate director of budget and analytic business services stated that the manager supervising the respective employee determined PeopleSoft access.

Failure to limit access to the vendor master files increases the risk of fraudulently misdirected payments.

Recommendation 4

We recommend that the campus review access to the vendor master file and take appropriate action to segregate duties and restrict vendor update responsibilities.

Campus Response

We concur. All personnel with access to the vendor file were approved by management and a process for approval was in place at the time of the audit. The campus has further strengthened procedures for reviewing access to the vendor master file by having the accounts payable manager regularly review vendor master file access to ensure appropriate access.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

PROCUREMENT CARDS

Campus procurement card controls did not ensure imposition of sanctions for misuse.

We reviewed ten procurement card statements. Due to the number of discrepancies on the statement of one cardholder, we examined the respective cardholder's purchases from November 2003 to January 2004. Our review disclosed six personal purchases totaling \$583 that were reimbursed by the cardholder one month later, subsequent to follow-up by an accounts payable technician. In addition, another personal purchase of \$1,800 was reimbursed by the cardholder six months after the purchase, subsequent to our discovery during the audit.

Cal Poly's *Procurement Card Handbook*, dated December 2002, indicates that any unauthorized use or misuse of the card will result in an immediate two-year suspension. Misuse is the use of the card for any personal benefit. Any such use will result in the card being revoked (under *Acknowledgment and Responsibility of Paymentech Credit Card*).

The assistant director of payroll and payment management stated that the instances of personal procurement card purchases were attributed to cardholder oversight. He further stated that the cardholders received notification that personal purchases would result in procurement card revocation.

Insufficient enforcement of campus procurement card policies increases the risk of loss from inappropriate acts.

Recommendation 5

We recommend that the campus strengthen enforcement of procurement card policies and procedures and ensure timely escalation of disciplinary action for procurement cardholders who deviate from established policy.

Campus Response

We concur. The campus has strengthened the enforcement of procurement card policies and is taking appropriate disciplinary actions for inappropriate use of the card.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

REVOLVING FUND

Salary advances were not recovered timely.

Our review of ten salary advances issued between April 2002 and November 2003 disclosed that:

- ▶ Four salary advances totaling \$3,752 were outstanding between 4 to 23 months, as of February 2004.
- ▶ Four salary advances totaling \$6,015 were recovered between 5 and 11 months following issuance.

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

SAM §8776.7 provides collection procedures to be employed in the collection of amounts due from employees.

The assistant director of payroll and payment management stated that the delayed recovery of salary advances was attributed to staff turnover and shortages. He further stated that the campus anticipated full collection of the outstanding salary advances using procedures such as tax offset and collection agencies.

Insufficient control over salary advances increases the risk that revolving fund monies are not available and reduces the likelihood of collection.

Recommendation 6

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

Campus Response

We concur. Aged salary advance reports are sent by accounts payable to the payroll department on a monthly basis. One of the payroll technicians has been assigned the responsibility of coordinating the collection effort by the payroll department to better ensure timely collection.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

PAYROLL AND PERSONNEL

AUTHORIZATION OF TRANSACTIONS

The delegation of authority on file with the State Controller's Office (SCO) to authorize personnel and payroll transactions (PPT) was not kept current.

Our review of 45 PPT documents with effective dates between July 2002 and February 2004 disclosed that, in nine instances, the PPT document was authorized by an individual not included on

the Signature Card Authorizations document on file with the SCO, Personnel/Payroll Services Division.

The SCO, Personnel/Payroll Services Division *Payroll Procedures Manual* requires an authorized signature certifying that the information on the payroll document is correct. It is the responsibility of each campus to ensure that the signature card file of employees authorized to sign various payroll documents maintained by the SCO, Personnel/Payroll Services Division is accurate (under *Introduction §I500 and Agency/Campus Responsibility §I501*).

The assistant director of payroll and payment management stated that the outdated delegation of authority was an oversight and a new signature card document would be submitted.

Failure to maintain current delegations on file with the SCO increases the risk of inappropriate or unauthorized transactions.

Recommendation 7

We recommend that the campus update the delegation of authority on file with the SCO and strengthen controls to ensure that such delegation remains current.

Campus Response

We concur. Updated delegation of authority and signature cards are in the process of being compiled.

Anticipated Completion Date: March 31, 2005.

EMPLOYMENT ELIGIBILITY VERIFICATION

Federal Form I-9 employment eligibility information was not always timely.

Our review of 20 new hires in September 2003 and January 2004 disclosed that the campus completed employment eligibility verification for eight employees between 4 and 25 days following the effective hire date.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and non-citizens are required to complete Form I-9 Employment Eligibility Verification at the time of hire, which is the actual beginning of employment. The act requires employers to examine evidence of identity and employment eligibility within three business days of the date employment begins.

The assistant director of payroll and payment management stated that new hires did not always complete the required documentation at the beginning of employment. He further stated the payroll services department did not always receive notification of appointments, but added that campus procedures required the Form I-9 to be completed prior to adding a new employee to the personnel and payroll management system.

Untimely completion of employment eligibility verification increases the risk of non-compliance with federal employment regulations.

Recommendation 8

We recommend that the campus strengthen procedures to ensure that I-9 forms are completed at the beginning of employment.

Campus Response

We concur. A timing problem was identified for completion of I-9 documentation at the downstream end of the employment process. Payroll will work with campus offices that are upstream in the process to ensure that new employees are sent to the payroll office to fill out an I-9 within three days from the beginning of their employment. Additionally, a memo will be sent out to all departments on campus to remind the department heads that a student assistant cannot begin employment until an I-9 is completed and on file with the payroll department.

Anticipated Completion Date: August 31, 2005.

EMPLOYEE SEPARATION

Employee separation procedures did not ensure timely payment of wages due and complete clearance documentation.

Our review of 15 employee separations between July 2002 and January 2004 disclosed that:

- ▶ In eight instances, the final salary payment or salary advance was not completed within 72 hours after the effective separation date.
- ▶ In five instances, the campus clearance form was not on file.
- ▶ In two instances, the campus clearance form was not certified by facility services for the return of keys.

CSU Coded Memorandum Human Resources 2003-15, Attachment B, states that Labor Code §201 and §202 require the CSU to pay separating employees in a specified time frame. Payment of owed wages to discharged and resigned employees is treated differently in the Labor Code. An employee who is discharged must immediately be paid wages earned. An employee who resigns from employment must be paid wages earned no later than 72 hours from the date of separation. However, if the employee provides the employer at least 72 hours notice of his/her impending separation, he/she is entitled to wages owed at the time of separation.

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

The assistant director of payroll and payment management stated that the payroll services department did not always receive notification of an employee separation in a timely manner. He further stated that the campus did not have recourse with the separating employee, due to the inability to withhold payment.

Insufficient control over employee separations increases the risk of late wage payments, loss of state funds, and inappropriate use of state resources.

Recommendation 9

We recommend that the campus review and strengthen employee separation procedures to ensure timely payment of wages and complete clearance documentation.

Campus Response

We concur. Responsibility for finalization of separation forms and issuance of separation pay is at the downstream end of the employee separation process. Payroll will work with campus offices that are upstream in the process of employee separation to better ensure adherence to separation guidelines, including working to improve the level of communication on separation documentation between campus departments.

Anticipated Completion Date: August 31, 2005.

FIXED ASSETS

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

Our review of 20 property acquisitions disclosed that:

- ▶ In six instances, the property value was not recorded at purchase price plus incidental costs incurred to put the item into place and ready for its intended use.
- ▶ In one instance, contributed services received from a donor were valued at \$35,000 and erroneously recorded in the property ledger.
- ▶ In one instance, documentation was not on file to substantiate a property valuation at \$30,000.

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

SAM §20050 indicates 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.

The assistant director of financial reporting stated that certain misstated property values were attributed to other costs not considered in the calculated amount. He further stated that recording the contributed services was due to oversight, and one item required an estimated valuation after identification during an inventory count.

Inaccurate valuation of property acquisitions increases the risk of misstated property records.

Recommendation 10

We recommend that the campus strengthen controls to ensure accurate valuation of property acquisitions.

Campus Response

We concur. We have implemented an enhanced valuation report for equipment acquisitions that will help ensure that property is properly valued.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

FISCAL INFORMATION TECHNOLOGY

Certain individuals had inappropriately been assigned Oracle IDs that allowed them to modify production PeopleSoft data.

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 account management is considered to include an appropriate authorization and monitoring of accounts that have access to production data files.

The director of technology services stated that guidelines had not yet been established for monitoring the use of production Oracle accounts.

Inadequate control over the use and monitoring of accounts with access to production data increases the risk of unauthorized and undetected modification of production data.

Recommendation 11

We recommend that the campus implement a process for authorizing and monitoring the use of Oracle IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. Cal Poly intends to institute a new procedure utilizing the new CMS Central change log to ensure control and authorization of Oracle ID use to modify production data.

Anticipated Completion Date: April 1, 2005.

TRUST FUNDS

TRUST AGREEMENTS

Trust agreements were not always on file and complete.

Our review of 76 trust accounts disclosed that:

- ▶ In nine instances, a trust account agreement was not on file.
- ▶ In 12 instances, the trust account documentation did not address time constraints.
- ▶ In 21 instances, the trust account documentation did not address reporting requirements. Additionally, it was noted that the campus trust fund request form did not address reporting requirements.
- ▶ In 11 instances, the trust account documentation did not provide adequate instructions for closing the account and disposition of any unexpended balance.
- ▶ In 32 instances, the trust account documentation did not address the use of monies for administrative or overhead costs.

SUAM §3726.01 through §3726.19 provide guidelines for trust projects in CSU Trust Fund No. 948 that include trust agreements as described in SUAM §3710.02.

SUAM §3710.02 requires that each trust project be supported by documentation in accordance with SAM §19440.01. Documentation may take one or more forms, such as a contract with an external agency, regulations issued by governmental agencies or the Office of the Chancellor, a letter of gift acceptance, or a trust agreement.

SAM §19440.1 indicates that each trust account established shall be supported by documentation as to the type of trust, donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on the use of monies for administrative or overhead costs.

The director of fiscal services stated that the campus' interpretation of Assembly Bill 2812 concluded that trust agreements were not required for parking and continuing education accounts. She further stated that certain trust accounts without agreements were established to account for investment monies, and time constraints for these accounts were implied to be indefinite, unless stated otherwise. She also stated that campus policies addressed instructions for closing accounts and disposition of any unexpended balance for inactive accounts and recovery of administrative overhead costs through an assessment from investment earnings. The assistant director of student financial services stated that certain trust accounts established without trust agreements were single occurrence distributions of scholarship monies.

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

Recommendation 12

We recommend that the campus strengthen controls to maintain complete trust agreements for all trust projects.

Campus Response

We concur. Trust agreements should be prepared for all trust fund projects or accounts that require them and will strengthen controls by preparing documentation for those trust fund projects.

Anticipated Completion Date: August 31, 2005.

TRUST BALANCES

Trust fund projects did not always have positive fund balances.

Our review of trust account balances as of June 30, 2003, disclosed that 19 projects had negative fund balances ranging from \$32 to \$69,603.

SUAM §3710.01 indicates that each trust project must be accounted for separately, including balance sheet and income statement reporting and other reports as required. It further indicates that each trust project must maintain a positive cash balance and a positive fund balance.

The assistant director of student financial services stated that the negative fund balances were attributed to excess distributions/expenditures, interfund payables, investment adjustments, a year-end liability accrual, or allowance for uncollectible accounts.

Incomplete fiscal year-end accrual entries increase the risk of inaccurate accounting of trust project fund balances.

Recommendation 13

We recommend that the campus strengthen existing controls over trust fund administration to ensure that trust projects maintain positive fund balances.

Campus Response

We concur. We will conduct reviews of trust fund balances and pertinent activity regularly, and prior to the fiscal year end close.

Anticipated Completion Date: June 30, 2005.

RECONCILIATIONS

Reconciliations were not always prepared in a complete and timely manner.

During our review of reconciliations in May 2004, we noted that:

- ▶ Application fee reconciliations for the academic years ending June 2002 and June 2003* were not completed until January 2003 and November 2003, respectively.
- ▶ Revolving fund reconciliations did not show the total cash on hand advanced for change and purchase funds. The change and cash purchase funds assigned totaled \$16,715.

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

SAM §7922 requires that the revolving fund reconciliation show cash in subrevolving funds for change and cash purchase funds.

The assistant director of student financial services stated that the reconciliation of application fees for each academic year was time-consuming, due to the volume of activity. He further stated that the campus had not previously considered showing the cash as advanced for change funds on the revolving fund reconciliation.

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

Recommendation 14

We recommend that the campus strengthen procedures to ensure that reconciliations are prepared in a complete and timely manner.

Campus Response

We concur. The university has strengthened procedures to ensure that reconciliations are prepared in a complete and timely manner. The procedure for preparing application fee reconciliations has been modified to require that reconciliations be performed on a quarterly basis, rather than annually. The decreased period between reconciliations has facilitated compliance with the reconciliation timing requirements. Additionally, the revolving fund reconciliations have been modified to include the total cash on hand advanced for change and purchase funds in accordance with SAM requirements.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Warren J. Baker	President
Donna Amos	Associate Director of Admissions and Recruitment
Cheryl Andrus	Administrative Support Assistant, University Police
Marcos Benadiba	Assistant Director of Payroll and Payment Management
Victor Brancart	Business Initiatives Analyst, Budget and Analytic Business Services
Deborah Brothwell	Associate Director of Budget and Analytic Business Services
Cindy Campbell	Associate Director of University Police
Marlene Cartter	Associate Registrar
Kathleen Cook	Administrative Assistant, Administration and Finance
Scott Cooke	Assistant Director of Financial Reporting
Marlene Cramer	Business Services Coordinator, University Police
Janis Grieb	Student Accounts Manager
Judith Holloway	Accounting Technician, Student Accounts
Brett Holman	Assistant Director of Student Financial Services
Carol Johnston	Accounts Payable Manager
Lawrence Kelley	Vice President for Administration and Finance
Linda Kristenson	Director of Corporate and Foundation Relations
Betty Kroeze	Head of Support Services, Health and Counseling Services
Suzanne LaCaro	Administrative Assistant, Contract and Procurement Services
Lorlie Leetham	Director of Fiscal Services
Dario Luis	Accountant, Cal Poly Continuing Education
Johanna Madjedi	Director of Communications and Computing Services
Gregory Melnyk	Purchasing Supervisor
Guy Overman	Assistant Director of Facility Services
Richard Ramirez	Associate Vice President for Finance
Joan Regulski	Accounting Technician, Fiscal Services
Nancy Reynolds	Assistant Director of Accounts Management
Matthew Roberts	Director of Contract and Procurement Services
Denise Stack	Administrative Support Assistant, Corporate and Foundation Relations
Patricia Stoneman	Director of Academic Support, Cal Poly Continuing Education
Vicki Stover	Associate Vice President for Administration
Fred Strasser	Supervising Property Clerk
Velma Tiberti	Accounting Technician, Fiscal Services
Patricia Vargas	Cashier, Health and Counseling Services
Karen Webb	Associate Director for Budget and Analytic Business Services
Philip Webb	Associate Director of Business Operations, Athletics
Lee Whitmer	Supervising Cashier
Nicholas Wynne	Interim Ticket Operations Manager
George Yelland	Director of Technology Services

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University 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.

CAL POLY

California Polytechnic State University
San Luis Obispo, CA 93407

Administration & Finance Division
(805) 756-2171 • Fax (805) 756-7560

January 31, 2005

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

RECEIVED
UNIVERSITY AUDITOR

FEB - 4 2005

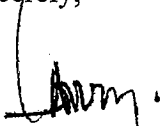
THE CALIFORNIA STATE
UNIVERSITY

Subject: Audit Report Number 04-05, *FISMA* at California Polytechnic State University,
San Luis Obispo

Dear Larry:

Attached is the campus response to recommendations of Audit Report Number 04-05, *FISMA*. If you have questions regarding this document, please contact Vicki Stover, Associate Vice President for Administration, at 805-756-2171 or VStover@calpoly.edu.

Sincerely,



Lawrence Kelley
Vice President for Administration & Finance

cc: R. Ramirez
L. Leetham
G. Yelland
V. Stover

FISMA

CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO

Report Number 04-05

CASH RECEIPTS

SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Review cashiering activities at health and counseling services and the mustang ticket office and take appropriate action to either segregate duties or establish effective mitigating controls.
- b. Change the safe combination at university police and strengthen procedures to ensure that the safe combination is changed when employees with knowledge of the combination separate from the department.
- c. Establish and implement procedures to adequately control and secure cash receipts from athletic sporting events, and deposit accumulated receipts within ten working days.
- d. Ensure that checks received by the mustang ticket office are restrictively endorsed by the end of the day.
- e. Record complimentary tickets and trade-out transactions to the general ledger.
- f. Reconcile ticket sales to the general ledger on a monthly basis.

Campus Response

- a. We concur. Health and Counseling Services has taken steps to further segregate duties for cashiering activities. The Mustang ticket office has also taken steps to segregate duties where possible and institute mitigating controls where not.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- b. We concur. The University Police safe combination has been changed and procedures have been put into place to ensure that the safe combination is changed when employees with knowledge of the combination separate from the department.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- c. We concur. Procedures have been established and implemented to adequately control and secure cash receipts from athletic sporting events and to make deposits of accumulated receipts within ten working days.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- d. We concur. The Mustang ticket office has instituted procedures to ensure that all checks are restrictively endorsed on the day that they are received.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

- e. A record is kept of all complimentary tickets and trade out transactions. This information will be utilized to develop a formal reconciliation of ticket numbers for trade out and complimentary tickets to total number of tickets.

Anticipated Completion Date: June 30, 2005.

- f. We concur. A subsidiary ledger is kept of all ticket sales. This information will be utilized to develop a reconciliation of the ticket sales to the general ledger.

Anticipated Completion Date: June 30, 2005.

FEE AUTHORIZATION

Recommendation 2

We recommend that the campus strengthen controls to ensure that the campus fee advisory committee is presented with at least the minimum amount of fiscal data, as prescribed in EO 740, prior to providing advice to the campus president.

Campus Response

We concur. All future fee proposals forwarded to Campus Fee Advisory Committee will include the transmittal of appropriate fiscal data as prescribed by EO 740.

Anticipated Completion Date: Proof of completion to be sent by February 28, 2005.

ACCOUNTS RECEIVABLE

Recommendation 3

We recommend that the campus strengthen controls to ensure written documentation of the authorization to discharge debts of \$1,000 or less.

Campus Response

We concur. The University has strengthened procedures to require written authorization by an appropriate supervisor or manager within the Student Accounts Office in order to approve the discharge of debts of \$1,000 or less.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

PURCHASING

VENDOR MASTER FILE

Recommendation 4

We recommend that the campus review access to the vendor master file and take appropriate action to segregate duties and restrict vendor update responsibilities.

Campus Response

We concur. All personnel with access to the vendor file were approved by management and a process for approval was in place at the time of the audit. The campus has further strengthened procedures for reviewing access to the vendor master file by having the Accounts Payable Manager regularly review vendor master file access to ensure appropriate access.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

PROCUREMENT CARDS

Recommendation 5

We recommend that the campus strengthen enforcement of procurement card policies and procedures and ensure timely escalation of disciplinary action for procurement cardholders who deviate from established policy.

Campus Response

We concur. The campus has strengthened the enforcement of procurement card policies and is taking appropriate disciplinary actions for inappropriate use of the card.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

REVOLVING FUND

Recommendation 6

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

Campus Response

We concur. Aged salary advance reports are sent by Accounts Payable to the Payroll Department on a monthly basis. One of the Payroll Technicians has been assigned the responsibility of coordinating the collection effort by the Payroll Department to better ensure timely collection.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

PAYROLL AND PERSONNEL**AUTHORIZATION OF TRANSACTIONS****Recommendation 7**

We recommend that the campus update the delegation of authority on file with the SCO and strengthen controls to ensure that such delegation remains current.

Campus Response

We concur. Updated delegation of authority and signature cards are in the process of being compiled.

Anticipated Completion Date: March 31, 2005.

EMPLOYMENT ELIGIBILITY VERIFICATION**Recommendation 8**

We recommend that the campus strengthen procedures to ensure that I-9 forms are completed at the beginning of employment.

Campus Response

We concur. A timing problem was identified for completion of I-9 documentation at the downstream end of the employment process. Payroll will work with campus offices that are upstream in the process to ensure that new employees are sent to the payroll office to fill out an I-9 within three days from the beginning of their employment. Additionally, a memo will be sent out to all departments on campus to remind the department heads that a student assistant cannot begin employment until an I-9 is completed and on file with the Payroll Department.

Anticipated Completion Date: August 31, 2005.

EMPLOYEE SEPARATION**Recommendation 9**

We recommend that the campus review and strengthen employee separation procedures to ensure timely payment of wages and complete clearance documentation.

Campus Response

We concur. Responsibility for finalization of separation forms and issuance of separation pay is at the downstream end of the employee separation process. Payroll will work with campus offices that are upstream in the process of employee separation to better ensure adherence to separation guidelines, including working to improve the level of communication on separation documentation between campus departments.

Anticipated Completion Date: August 31, 2005.

FIXED ASSETS**Recommendation 10**

We recommend that the campus strengthen controls to ensure accurate valuation of property acquisitions.

Campus Response

We concur. We have implemented an enhanced valuation report for equipment acquisitions that will help ensure that Property is properly valued.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

FISCAL INFORMATION TECHNOLOGY**Recommendation 11**

We recommend that the campus implement a process for authorizing and monitoring the use of Oracle IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. Cal Poly intends to institute a new procedure utilizing the new CMS Central change log to ensure control and authorization of Oracle ID use to modify production data.

Anticipated Completion Date: April 1, 2005.

TRUST FUNDS**TRUST AGREEMENTS****Recommendation 12**

We recommend that the campus strengthen controls to maintain complete trust agreements for all trust projects.

Campus Response

We concur. Trust agreements should be prepared for all trust fund projects or accounts that require them and will strengthen controls by preparing documentation for those trust fund projects.

Anticipated Completion Date: August 31, 2005.

TRUST BALANCES

Recommendation 13

We recommend that the campus strengthen existing controls over trust fund administration to ensure that trust projects maintain positive fund balances.

Campus Response

We concur. We will conduct reviews of trust fund balances and pertinent activity regularly, and prior to the fiscal year end close.

Anticipated Completion Date: June 30, 2005.

RECONCILIATIONS

Recommendation 14

We recommend that the campus strengthen procedures to ensure that reconciliations are prepared in a complete and timely manner.

Campus Response

We concur. The University has strengthened procedures to ensure that reconciliations are prepared in a complete and timely manner. The procedure for preparing Application Fee reconciliations has been modified to require that reconciliations be performed on a quarterly basis rather than annually. The decreased period between reconciliations has facilitated compliance with the reconciliation timing requirements. Additionally, the Revolving Fund reconciliations have been modified to include the total cash on hand advanced for change and purchase funds in accordance with SAM requirements.

Anticipated Completion Date: Proof of completion to be submitted by March 31, 2005.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

February 16, 2005

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 04-05 on *FISMA*,
California Polytechnic State University, San Luis Obispo

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of February 16, 2005, I accept the response as submitted with the draft final report on *FISMA*, California Polytechnic State University, San Luis Obispo.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/aml

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Warren J. Baker, President
Mr. Lawrence R. Kelley, Vice President for Administration and Finance

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS