

FISMA
CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD

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ABBREVIATIONS

AD	Athletics Department
AVC	Antelope Valley Campus
CCP	Credit Card Procurement
CSU	California State University
CSUB	California State University, Bakersfield
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
HC	Health Center
NSP/O	New Student Programs/Orientation
SAM	State Administrative Manual
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 *International 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 State University, Bakersfield (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.

We visited the CSUB campus from January 23, 2006, through March 17, 2006, and made a study and evaluation of the accounting and administrative control in effect as of March 17, 2006. 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, cash disbursements, fixed assets, and fiscal information technology. 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 March 17, 2006, 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 [6]

Cash control weaknesses were found at four of the five satellite cashiering areas visited. Accountability for cash receipts and/or parking permits was not always localized at the athletics department (AD), new student programs/orientation (NSP/O), or the health center mainly due to non-use of prelistings and transfer receipts. Duties and responsibilities related to cashiering and the deposit of receipts were not properly segregated at NSP/O. The transfer of funds for deposit by the AD and Antelope Valley campus (AVC) was not adequately controlled. The AD did not transfer receipts in a lockable bag, and neither the AD nor AVC required that the transfer of large deposits be made by at least two individuals or that a public safety escort or armored car service be used. Further, checks were not endorsed on the day of receipt at NSP/O, and it was observed that the cash drawer was unlocked while the AD cashiering office was unlocked and unoccupied. In addition, state university fee reconciliations were not always timely prepared. A review of state university fee reconciliations for the six quarters between summer 2004 and fall 2005, disclosed that in five instances, the fee reconciliations were not prepared and/or approved by one month after the end of the academic quarter. Lastly, the campus could not provide evidence of its efforts to periodically request local banks to search for unauthorized bank accounts.

ACCOUNTS RECEIVABLE [11]

Pursuit of delinquent third-party and student accounts receivable needed improvement. Follow-up letters for third-party receivables did not reference the original request, were not stated in a stronger tone, and did not address further action to be taken. Further, timely and adequate follow-up had not been conducted for three of ten third-party receivables reviewed. Additionally, a review of ten student receivables outstanding as of January 2006 disclosed that in four instances, there was no evidence of attempts to resolve the receivable after the 120-day letter was sent.

PURCHASING [12]

Procedures were not enforced to ensure the complete and timely submission of procurement card reconciliations. A review of 17 procurement card reconciliations disclosed that in seven instances, the reconciliations were not properly dated and/or signed. Additionally, in five instances, reconciliations were turned into accounts payable after the payment due date.

CASH DISBURSEMENTS [13]

Bank reconciliations were not always timely prepared and complete. A review of the bank reconciliations between July 2004 and December 2005 disclosed that 15 of the 18 bank reconciliations were not completed in a timely manner. Delinquency ranged from 16 to 286 days. In addition, five of the bank reconciliations did not include the preparation date. In addition, long-outstanding checks were not processed in a timely manner. A review of the list of outstanding checks as of December 31, 2005, showed 73 checks older than one year totaling \$22,196.

FIXED ASSETS [15]

Differences between physical inventory counts and campus property records were not promptly resolved. This is a repeat finding from the prior FISMA audit. A review of the physical inventory reconciliation process disclosed that 678 property items valued at \$874,672 were listed on the sub-ledger as “unknown,” but were not accounted for as missing property in the reconciliation.

FISCAL INFORMATION TECHNOLOGY [16]

There were no monitoring controls over the use of Oracle IDs that allowed modification to production PeopleSoft data. In addition, the campus did not have a reliable process for providing desktop software patch management, and some individuals with access to the computer room and did not require such access to perform their normal job duties. Lastly, the information security plan and associated processes did not address all issues needed to provide security over the campus systems and network. For example, information security was performed on a part-time basis and did not include a comprehensive plan for addressing all security needs or documented time frames for completing known projects and ensuring accountability; campuswide security training and network security technologies had not been implemented; and intrusion detection and protection systems were not used to monitor network traffic.

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.
- ▶ 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 guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International 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 2004/05 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 2004 to December 2005. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ 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 March 17, 2006. 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 four of the five satellite cashiering areas visited.

The satellite locations reviewed included the athletics department (AD), new student programs/orientation (NSP/O), the health center (HC), credentials, and the Antelope Valley campus (AVC).

Accountability

Accountability for cash receipts and parking permits was not always localized.

We found that:

- ▶ The AD did not prepare a prelisting of checks received that were either erroneously addressed or intended for a different department and forwarded the checks to the main cashier or the foundation for investigation without the use of transfer receipts.
- ▶ NSP/O did not prepare a prelisting of checks erroneously received in the department and forwarded the checks to the intended departments via inter-campus mail.
- ▶ The AD obtained parking permits directly from parking services instead of main cashiering where the permit issuance would have been appropriately logged. As a result, there was no record of the parking permits given to the AD.
- ▶ Neither transfer receipts nor separate logons were used to establish accountability when multiple cashiers used the same register at the HC.

State Administrative Manual (SAM) §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency will be prelisted by the person opening the mail to localize accountability of these assets.

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

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

The assistant vice president of fiscal services stated her belief that each satellite had been given instructions on the appropriate accountability procedures and incorrectly addressed checks were infrequently received. She further stated her belief that transfer receipts were not required for the deposit of funds within the same department even if funds were being transported from other buildings or offices. She added that procedures had not been adequately enforced at parking services and the HC.

Segregation of Duties

Duties and responsibilities related to cashiering and the deposit of cash receipts were not properly segregated at NSP/O.

During our review of NSP/O, we found that the program assistant received and processed payments, posted receipts, and prepared deposits.

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: maintaining books of original entry, receiving and depositing remittances, inputting receipts information, and reconciling input to output.

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

The assistant vice president of fiscal services stated her belief that the lack of full-time staff in NSP/O contributed to the improper segregation of duties.

Transfer of Funds

The transfer of funds for deposit by the AD and AVC was not adequately controlled.

We found that:

- ▶ Deposits were transported from the AD to the main cashier in an unlockable bag by a student cashier. Additionally, there was no policy or procedure that required cash (currency and coin) over \$3,000 to be transported to the main cashier via two people or that a public safety escort be used.
- ▶ Deposits were transported from the AVC to the bank by the fiscal services administrative support technician via her personal car instead of via armored car service or with the appropriate escort. In some instances, deposits totaled approximately \$60,000.

SAM §8032.4 states that a single employee will not transport more than \$3,000 in coin and currency at one time. Whenever coin and currency to be deposited exceeds \$3,000 and armored car service is either not available or excessively expensive, two agency employees should be assigned to deliver the

deposit jointly or two or more deposits may be made to reduce the cash transported at one time. Occasionally, exceptionally large deposits may be handled by requesting a public safety escort.

The assistant vice president of fiscal services stated her belief that cash handling procedures were not always followed at satellites due to limited staff.

Restrictive Endorsement of Checks

Checks were not always endorsed on the day of receipt at NSP/O.

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

The assistant vice president of fiscal services stated her belief that the failure to endorse checks at the time of receipt was due to oversight.

Safety of Funds

We observed that the cash drawer was unlocked while the AD cashiering office was unlocked and unoccupied.

SAM §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

SAM §20050 defines internal control as a process designed to provide an organization reasonable assurance regarding the achievement of certain objectives, including the safeguarding of assets.

The assistant vice president of fiscal services stated her belief that, even though this incident occurred while the responsible employee was in the adjacent room, procedure was not followed due to oversight.

Inadequate control over cash receipts increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Establish procedures to prepare a prelisting of cash and checks received not payable to the university at the AD and NSP/O.
- b. Implement the use of transfer receipts at the AD when forwarding checks to the main cashier or the foundation and transferring cash or checks between athletic departments/subdivisions and the main AD cashiering area and at NSP/O when transferring checks erroneously received.

- c. Prohibit the AD from obtaining parking permits directly from parking services or establish procedures to ensure that such issuance is appropriately logged and accounted for.
- d. Localize accountability over receipts at the HC when multiple cashiers use the same register at the HC.
- e. Review cashiering duties at NSP/O and take appropriate action to either segregate duties or establish mitigating controls.
- f. Ensure that AD deposits are transferred in a locked bag and establish procedures to ensure that the transfer of large deposits from the AD and AVC to the main cashier's office and the bank, respectively, is performed by at least two individuals or that a public safety or armored car service be used.
- g. Ensure that checks are restrictively endorsed as soon as possible by no later than the same day of receipt at NSP/O.
- h. Ensure that cash remains appropriately safeguarded at all times when not in use at the AD.

Campus Response

We concur. The campus currently has a satellite cashiering procedure that addresses most of the issues outlined in this finding. There are several locations on campus and the audit finding indicates the process is not being adhered to at all locations. The campus will ensure that the quarterly visits for reconciliation purposes also incorporate a procedure review and reinforcement of the correct procedures. The review will include assurance that appropriate cash handling procedures are being followed, the operation is only handling transactions that have been delegated to their site, and there are segregation of duties appropriately outlined. All measures to ensure cash is handled safely will be incorporated into the review. Anticipated completion date: September 2006

STATE UNIVERSITY FEE RECONCILIATIONS

State university fee reconciliations were not always timely prepared.

Our review of state university fee reconciliations for the six quarters between summer 2004 and fall 2005, disclosed that in five instances, the fee reconciliations were not prepared and/or approved by one month after the end of the academic quarter. The reconciliations had been prepared between two weeks and eight months after their quarterly due dates.

State University Administrative Manual (SUAM) §3825.02 states that a reconciliation of state university fees to census date report relative to the number of students accounted on the census date shall be prepared for each academic term. The reconciliation shall be maintained on file by each campus. Although SUAM §3825.02 is silent as to the due date for reconciliation, SUAM §3825.01

states that application fee reconciliations should be completed one month after the end of the academic term being reconciled.

The assistant vice president of fiscal services stated that the implementation of many new activities in the fiscal area, including GAAP, PeopleSoft, and CashNet, required the department to prioritize tasks based on the quantity of personnel time required and the risk to the university. She further stated that the state university fee collections reports were reviewed for reasonableness, but the complete reconciliations were not performed until the end of the fiscal year once PeopleSoft was running with high reliability.

Failure to reconcile state university fees timely increases the risk that errors and irregularities will not be detected.

Recommendation 2

We recommend that the campus reconcile state university fees within one month after the end of the academic term being reconciled.

Campus Response

We concur. Campus state university fees will be reconciled within 30 days after the completion of each academic term. Anticipated completion date: September 2006

BANK SURVEYS

The campus could not provide evidence of its efforts to periodically request local banks to search for unauthorized bank accounts that use the campus' name, address, or federal ID number.

Government Code §13401(b)(3) states that all levels of management of state agencies must be involved in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds.

The assistant vice president of fiscal services stated that prior efforts to search for unauthorized bank accounts had been made, but documentation of those attempts had not been maintained.

The lack of a process to periodically search for unauthorized bank accounts increases the risk of the campus being associated with improper bank accounts.

Recommendation 3

We recommend that the campus reestablish procedures to periodically request local banks to search for unauthorized bank accounts that use the university's name, address, and federal ID number and maintain documentation of such efforts.

Campus Response

We concur. The campus will ensure our procedure for requesting local banks to research for unauthorized accounts using our campus and/or foundation data will be performed on an annual basis. Anticipated completion date: October 2006

ACCOUNTS RECEIVABLE

Pursuit of delinquent third-party and student accounts receivable needed improvement.

Third-Party

Our review of ten third-party receivables outstanding as of January 2006 disclosed that:

- ▶ Follow-up letters did not reference the original request, were not stated in a progressively stronger tone, and did not address further action to be taken.
- ▶ In three instances, timely and adequate follow-up had not been conducted. In two of the three instances, only 30-day letters were sent, while no collection activity had occurred since October 2005 in the third instance.

Student Receivables

Our review of ten student receivables outstanding as of January 2006 disclosed that in four instances, there was no evidence of attempts to resolve the receivable after the 120-day letter was sent.

SUAM §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, and utilization of the offset claim procedures for accounts greater than \$10.

SAM §8776.6 states that once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

The assistant vice president of fiscal services stated that the receivables reviewed occurred during a period when an automatic flagging mechanism meant to detect delinquency was disabled in order to complete a system upgrade.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk that receivables will not be properly reflected in the campus financial statements.

Recommendation 4

We recommend that the campus strengthen procedures to ensure that third-party accounts receivable are promptly pursued through the use of collection letters with progressively stronger language, and attempts are made to resolve student receivables after issuance of the 120-day letter.

Campus Response

We concur. The campus will revise the current procedures to incorporate handling procedures for our foundation accounts receivables and to show progressively stronger language in our series of letters to third-party vendors. The campus has a process for handling students that runs a Brio script against our Banner student database and identifies students with accounts receivables over 120 days old. This enables the student receivable staff to proceed to the next steps such as collections, tax offset, etc. The script was recently changed and an error in the programming caused this group to not be selected. The program was immediately corrected allowing the campus to continue with the established process. Anticipated completion date: October 2006

PURCHASING

Procedures were not enforced to ensure the complete and timely submission of procurement card reconciliations.

Our review of 17 procurement card reconciliations for the months of April 2005 and November 2005 disclosed that:

- ▶ In six instances, the reconciliations were not dated by the cardholder or approver. In one other instance, the reconciliation had not been signed and dated by the cardholder.
- ▶ In five instances, reconciliations were turned into accounts payable after the payment due date. The reconciliations were stamped received between 2 and 126 days after the payment due date.

The California State University, Bakersfield *Credit Card Procurement Handbook* states, in part, that at the close of each monthly billing cycle, each cardholder will receive an individual statement of account. The cardholder reviews the statement for accuracy and reconciles the bank statement with the Monthly Credit Card Procurement (CCP) Purchase Report and vendor receipts/invoices. The cardholder will sign and date the Monthly CCP Purchase Report and date the bank statement. This reconciliation must be completed within five working days from receipt of the bank statement and forwarded to the approving official for review and signature. Within three working days after receipt of the cardholder's documentation, the approving official will sign and date each Monthly

CCP Purchase Report and initial and date each cardholder bank statement. This reconciliation packet must be submitted to accounts payable within ten business days from receipt of bank statement.

The assistant vice president of fiscal services stated her belief that the PeopleSoft implementation required a tremendous draw on personnel resources; therefore, the campus focused on performing the basic procedures, but was not always as diligent about following through on the details.

Failure to adhere to campus procurement card procedures and deadlines increases the risk of loss from inappropriate acts.

Recommendation 5

We recommend that the campus strengthen enforcement of procurement card signature and dating requirements and submission deadlines.

Campus Response

We concur. The campus will strengthen enforcement of all the procedures outlined in the procurement card manual. Anticipated completion date: October 2006

CASH DISBURSEMENTS

BANK RECONCILIATIONS

Bank reconciliations were not always timely prepared and complete.

Our review of the bank reconciliations between July 2004 and December 2005 disclosed that 15 of the 18 bank reconciliations were not completed in a timely manner. Delinquency ranged from 16 to 286 days. In addition, five of the bank reconciliations did not include the preparation date.

SAM §7923 requires departments reconcile their end-of-the-month bank and centralized State Treasury system account balances monthly.

SAM §8060 states that all bank and centralized State Treasury system accounts will be reconciled promptly at the end of each month.

SAM §7908 states that all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

The assistant vice president of fiscal services stated that completion of bank reconciliations fell behind due to the PeopleSoft implementation. She further stated that responsibility for the bank reconciliation was moved to a new employee in August 2005 and that employee was unaware of the requirement to date her reconciliations, although she had prepared them timely. The general

accounting manager stated that the bank reconciliation process and format utilized when the campus was on the Financial Records system was not adequate to complete the reconciliations under the PeopleSoft system. She further stated that this led to a situation where the bank reconciliations would be started in a timely manner, but could not be completed, as the campus was not fully aware of all the data in PeopleSoft and how to retrieve it for this process until late in the initial implementation year. She added that once this process, reports, and data elements were defined, the reconciliations were completed; however, the requirement for a preparation date was unknown by the preparer at that time. She also added that these issues had been corrected and the reconciliation process was accurate and timely at this point.

Untimely and incomplete bank reconciliations limit the campus' ability to detect errors and irregularities, increase the likelihood of loss of state funds, and compromise accountability.

Recommendation 6

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

Campus Response

We concur. The bank reconciliation process was behind during the campus implementation of PeopleSoft Finance, but is now current. Ongoing reconciliations will be performed in a complete and timely manner. Anticipated completion date: November 2006

LONG-OUTSTANDING CHECKS

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

We reviewed the list of outstanding checks as of December 31, 2005, and noted 73 checks older than one year totaling \$22,196 dated between July 2004 and December 2004.

SAM §8042 states that checks have a one-year period of negotiability, unless specific provisions of law require cancellation in a different period of time. Further, agencies will send a stop payment request form to the State Treasurer's Office for all uncashed checks timed to arrive at least one week prior to the end of the one-year period of negotiability.

The assistant vice president of fiscal services stated that responsibility for the bank reconciliation had been switched between several different employees over the past several years because of employee turnover and the PeopleSoft pre- and post-implementation, and processing requirements for long-outstanding checks were not always communicated. She further stated that many of these checks were issued from trust funds and the employees performing the bank reconciliation function were unaware that the same regulations applied to these types of funds.

Failure to process long-outstanding checks increases the risk of misappropriation and requires additional effort to review outstanding checks during the bank reconciliation process.

Recommendation 7

We recommend that the campus promptly process the noted long-outstanding checks and strengthen procedures to ensure that future long-outstanding checks are processed in a timely manner.

Campus Response

We concur. During the year-end close process, the long-outstanding checks were written-off and the campus has incorporated into the month end close process procedures to ensure long-outstanding checks are processed in a timely manner. Anticipated completion date: October 2006

FIXED ASSETS

Differences between physical inventory counts and campus property records were not promptly resolved. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act audit.

During our review of the physical inventory reconciliation process, we noted that 678 property items valued at \$874,672 were listed on the sub-ledger as "unknown," but were not accounted for as missing property in the reconciliation. Instead, the value of unknown property was included with property that had been physically verified.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property and provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against unauthorized use of state property.

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 assistant vice president of fiscal services stated her belief that the property department physical inventory system failed to identify items in a specific room of a department, which might not have been on the property sub-ledger that was to be verified and reconciled. She added that this might have happened due to the relocation of equipment to various other departments on campus, which resulted in the equipment being labeled as "unknown." She further stated her belief that the lack of a detailed process to ensure all tagged equipment was identified during physical inventory had led to the campus recording a value for "unknown" equipment that did not accurately reflect the campus position in this category.

Inadequate control over university property reduces accountability and increases the risk of misstatement of property, theft, and/or loss of state property.

Recommendation 8

We recommend that the campus take action to resolve these “unknown” property items and strengthen procedures to ensure that future differences between physical inventory counts and property records are timely investigated and resolved.

Campus Response

We concur. The campus has written revised procedures to address the “unknown” property items and has established procedures to ensure future physical inventory counts and corresponding follow-up procedures derive the best enforcement available from the campus community. Anticipated completion date: November 2006

FISCAL INFORMATION TECHNOLOGY

PRODUCTION DATA ACCESS

There were no monitoring controls over the use of Oracle IDs that allowed modification to 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 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 administrative computing services stated that guidelines had not yet been established for monitoring the use of production Oracle accounts.

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

Recommendation 9

We recommend that the campus implement a process for 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. A process to monitor the use of Oracle IDs is being implemented to track the database transactions triggered by these IDs and to ensure that such access is appropriate and authorized. Anticipated completion date: September 2006

DESKTOP PATCH MANAGEMENT

The campus did not have a reliable process for providing desktop software patch management.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective security of computing systems. Effective security of computing systems is considered to include an appropriate method for ensuring that security patches are continually applied to all servers and desktop computers.

The director of network and telecommunication services stated that the campus was considering acquisition of desktop system patch management software, but did not have sufficient monetary resources to implement such a solution.

Failure to provide a more reliable process of desktop software patch management increases the risk of fraudulent or unauthorized activities and compromises system integrity.

Recommendation 10

We recommend that the campus do a comprehensive review of the risks and mitigating responses to the process for providing desktop software patch management and ensure implementation and compliance.

Campus Response

We concur. We are waiting for the results of the chancellor's office's review of patch management systems and will implement the recommended solution this fiscal year. Anticipated completion date: October 2006

DATA CENTER PHYSICAL SECURITY

Some individuals had access to the computer room and did not require such access to perform their normal job duties.

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 network and telecommunication services stated that the additional individuals with access were comprised of alternate staff that might be needed to access that area in the absence of the primary staff responsible for that function.

Access to the data center by non-essential personnel increases the risk of accidental or malicious damage or theft to equipment and data that is essential to the continued operation of the campus.

Recommendation 11

We recommend that the campus review current access to the computer room and restrict access to only essential personnel.

Campus Response

We concur. The number of personnel who have access has already been restricted. The university will develop a policy regarding computer room access to those who meet the criteria of the policy. Anticipated completion date: October 2006

INFORMATION SECURITY PROCEDURES

The information security plan and associated processes did not address all issues needed to provide security over the campus systems and network.

The campus had not effectively addressed information security and had not given overall management of information security the attention that it required. Specifically we noted that:

- ▶ Information security was performed on a part-time basis and did not include a comprehensive plan for addressing all security needs or documented time frames for completing known projects and ensuring accountability.
- ▶ Campuswide security training initiatives had not been implemented.
- ▶ Due to delays in the TII project, network security technologies had not been implemented to appropriately protect critical production and departmental computers from campus network traffic, thus impacting the ability of the campus to opine on the overall effectiveness of existing security provisions related to such data.
- ▶ Intrusion detection and protection systems were not used to monitor network traffic, report anomalies, and thwart unauthorized or malicious traffic, thus preventing the security officer from implementing a proactive incident response plan.

SAM §4841 requires state agencies to provide for the proper use and protection of its information assets by establishing appropriate policies and procedures for preserving the integrity and security of automated files and databases.

The director of library services/information security officer stated that information security responsibilities had been unassigned until recently, that the current part-time responsibility was an improvement, and that the campus was evaluating alternatives for staffing the position on a full-time basis.

Security practices that do not ensure campuswide policy and compliance increase the risk of unauthorized exceptions, and could compromise compliance with statutory information security requirements, while lack of a comprehensive system of information security management increases campus exposure to security breaches and the risk of inappropriate access to data.

Recommendation 12

We recommend that the campus make information security management more of a priority and allocate more resources, directives, focus, and accountability to ensure that risks are mitigated and internal controls are clearly established and implemented. The campus should enhance its security plan to include all outstanding security projects, and as soon as possible, implement information security processes to ensure that appropriate security practices are in place campuswide.

Campus Response

We concur. The campus will review the recommendations made and put a plan and process in place to address them. Anticipated completion date: November 2006

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Horace Mitchell	President
Karen Abercrombie	Lead Accounts Payable Technician
Cassie Alvarez	Administrative Support Assistant, Health Center
Marge Becas	Supervisor, Student Financial Services
Jane Bedford	Manager, Student Financial Services
Candy Biagi	Secretary, Student Affairs
Cindy Breor	Fiscal Services Administrative Support Technician, Antelope Valley Campus
Karen Briggs	Accounts Payable Lead
Stephanie Burgess	Lead Cashier
Liz Cabral	Accountant I
Donna Candelaria	Administrative Support Coordinator, Athletics Department (AD)
Melinda Conrad	Accounts Payable Clerk
Walter Davis	Shipping and Receiving Assistant
Therese Elmore	Program Assistant, New Student Programs/Orientation
Mike Fleming	Network Analyst
Don Gadbury	Receiving Supervisor
Kellie Garcia	Director, Human Resources
Carole Harden	Education Credential Specialist
Rodney Hersberger	Director, Library Services/Information Security Officer
Fedel Kabagbag	Accountant
Irene Leung	Director, Administrative Computing Services
Laura Lorigo	Lead Cashier
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 Neal	Vice President, Business and Administrative Services
Bill Potter	Event Manager, AD
Isabel Rivera	Accounts Receivable Accountant
Clark Sanford	Director, Network and Telecommunications Services
Chris Shiery	Accounts Payable Clerk
Doug Smith	Property Clerk II, Facilities Management
Sharon Taylor	Assistant Vice President, Fiscal Services
Theresa Thompson	Analyst, Credentials
Kathy Villa	Buyer III, Procurement and Support Services
Anita Watanuki	Accountant

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

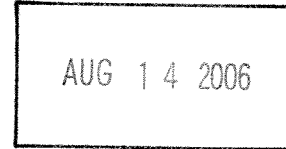
There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, 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.



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RECEIVED
UNIVERSITY AUDITOR



THE CALIFORNIA STATE
UNIVERSITY

August 11, 2006

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

RE: Campus Responses to Recommendations of FISMA Audit Report
No. 05-11, California State University, Bakersfield

Dear Mr. Mandel:

In accordance with Policies and Procedures for the Office of the University Auditor, enclosed is the campus response to recommendations 01-12 of the FISMA Audit Report No. 05-11, dated June 16, 2006.

An electronic version of the responses was sent to your office via email on Thursday, August 10, 2006. This response is respectfully submitted to the Chancellor for review and acceptance.

Please do not hesitate to contact Sharon Taylor, Assistant Vice President for Fiscal Services, at (661) 654-2082 should you require any additional information.

Sincerely,

Michael A. Neal
Vice President for Business
and Administrative Services

Cc: President Mitchell
Sharon Taylor

"ATTITUDE MAKES THE DIFFERENCE"

FISMA

**CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD**

**Report Number 05-11
June 16, 2006**

CASH RECEIPTS

SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Establish procedures to prepare a prelisting of cash and checks received not payable to the university at the AD and NSP/O.
- b. Implement the use of transfer receipts at the AD when forwarding checks to the main cashier or the foundation and transferring cash or checks between athletic departments/subdivisions and the main AD cashiering area and at NSP/O when transferring checks erroneously received.
- c. Prohibit the AD from obtaining parking permits directly from parking services or establish procedures to ensure that such issuance is appropriately logged and accounted for.
- d. Localize accountability over receipts at the HC when multiple cashiers use the same register at the HC.
- e. Review cashiering duties at NSP/O and take appropriate action to either segregate duties or establish mitigating controls.
- f. Ensure that AD deposits are transferred in a locked bag and establish procedures to ensure that the transfer of large deposits from the AD and AVC to the main cashier's office and the bank, respectively, is performed by at least two individuals or that a public safety or armored car service be used.
- g. Ensure that checks are restrictively endorsed as soon as possible by no later than the same day of receipt at NSP/O.
- h. Ensure that cash remains appropriately safeguarded at all times when not in use at the AD.

Campus Response

We concur. The campus currently has a satellite cashing procedure that addresses most of the issues outlined in this finding. There are several locations on campus and the audit finding indicates the process is not being adhered to at all locations. The campus will ensure that the quarterly visits for reconciliation purposes also incorporate a procedure review and reinforcement of the correct procedures. The review will include assurance that appropriate cash handling procedures are being followed, the operation is only handling transactions that have been delegated to their site and there are segregation of duties appropriately outlined. All measures to ensure cash is handled safely will be incorporated into the review. (Sep 06)

STATE UNIVERSITY FEE RECONCILIATIONS**Recommendation 2**

We recommend that the campus reconcile state university fees within one month after the end of the academic term being reconciled.

Campus Response

We concur. Campus State University fees will be reconciled within 30 days after the completion of each academic term. (Sep 06)

BANK SURVEYS**Recommendation 3**

We recommend that the campus reestablish procedures to periodically request local banks to search for unauthorized bank accounts that use the university's name, address, and federal ID number and maintain documentation of such efforts.

Campus Response

We concur. The campus will insure our procedure for requesting local banks to research for unauthorized accounts using our campus and/or Foundation data will be performed on an annual basis. (Oct 06)

ACCOUNTS RECEIVABLE**Recommendation 4**

We recommend that the campus strengthen procedures to ensure that third-party accounts receivable are promptly pursued through the use of collection letters with progressively stronger language, and attempts are made to resolve student receivables after issuance of the 120-day letter.

Campus Response

We concur. The campus will revise the current procedures to incorporate handling procedures for our Foundation A/R's and to show progressively stronger language in our series of letters to third-party vendors. The campus has a process for handling students that runs a Brio script against our Banner Student database and identifies students with A/R's over 120 days old. This enables the student receivable staff to proceed to the next steps such as collections, tax offset, etc. The script was recently changed and an error in the programming caused this group to not be selected. The program was immediately corrected allowing the campus to continue with the established process. (Oct 06)

PURCHASING**Recommendation 5**

We recommend that the campus strengthen enforcement of procurement card signature and dating requirements and submission deadlines.

Campus Response

We concur. The campus will strengthen enforcement of all the procedures outlined in the procurement card manual. (Oct 06)

CASH DISBURSEMENTS**BANK RECONCILIATIONS****Recommendation 6**

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

Campus Response

We concur. The bank reconciliation process was behind during the campus implementation of PeopleSoft Finance but is current. On going reconciliations will be performed in a complete and timely manner. (Nov 06)

LONG-OUTSTANDING CHECKS**Recommendation 7**

We recommend that the campus promptly process the noted long-outstanding checks and strengthen procedures to ensure that future long-outstanding checks are processed in a timely manner.

Campus Response

We concur. During the year-end close process the long-outstanding checks were written off and the campus has incorporated into the month end close process procedures to ensure long outstanding checks are processed in a timely manner. (Oct 06)

FIXED ASSETS**Recommendation 8**

We recommend that the campus take action to resolve these “unknown” property items and strengthen procedures to ensure that future differences between physical inventory counts and property records are timely investigated and resolved.

Campus Response

We concur. The campus has written revised procedures to address the “unknown” property items and has established procedures to ensure future physical inventory counts and corresponding follow up procedures derive the best enforcement available from the campus community. (Nov 06)

FISCAL INFORMATION TECHNOLOGY**PRODUCTION DATA ACCESS****Recommendation 9**

We recommend that the campus implement a process for 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. A process to monitor the use of Oracle IDs is being implemented to track the database transactions triggered by these IDs and to ensure that such access is appropriate and authorized. (Sep 06)

DESKTOP PATCH MANAGEMENT**Recommendation 10**

We recommend that the campus do a comprehensive review of the risks and mitigating responses to the process for providing desktop software patch management and ensure implementation and compliance.

Campus Response

We concur. We are waiting for the results of the Chancellor's Office review of patch management systems and will implement the recommended solution this fiscal year. (Oct. 06)

DATA CENTER PHYSICAL SECURITY

Recommendation 11

We recommend that the campus review current access to the computer room and restrict access to only essential personnel.

Campus Response

We concur. The number of personnel who have access has already been restricted. The University will develop a policy regarding computer room access to those who meet the criteria of the policy. (Oct 06)

INFORMATION SECURITY PROCEDURES

Recommendation 12

We recommend that the campus make information security management more of a priority and allocate more resources, directives, focus, and accountability to ensure that risks are mitigated and internal controls are clearly established and implemented. The campus should enhance its security plan to include all outstanding security projects, and as soon as possible, implement information security processes to ensure that appropriate security practices are in place campuswide.

Campus Response

We concur. The campus will review the recommendations made and put a plan and process in place to address them. (Nov. 06)


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 31, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

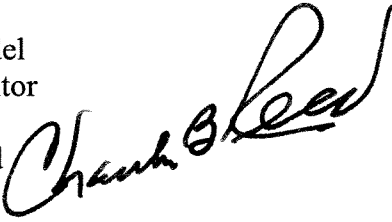
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-11 on *FISMA*,
California State University, Bakersfield

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of August 31, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, Bakersfield.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Horace Mitchell, President

SAN FRANCISCO

Mr. Michael A. Neal, Vice President for Business and
Administrative Services

SAN JOSÉ

Ms. Sharon Taylor, Assistant Vice President for Fiscal and Support Services

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS