

FISMA

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

**Report Number 06-05
October 12, 2006**

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CONTENTS

Executive Summary	1
Introduction.....	4
Purpose	4
Scope and Methodology	4

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts.....	6
Purchasing.....	7
Revolving Fund.....	8
Cash Disbursements	9
Fixed Assets	10
Property Accounting.....	10
Property Dispositions	11
Equipment Losses.....	13
Fiscal Information Technology	14
Data Center Physical Security	14
Data Center Environmental Controls	15
PeopleSoft Access Privileges	15

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

Cal Poly	California Polytechnic State University, San Luis Obispo
CMS	Common Management Systems
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
MOU	Memorandum of Understanding
SAM	State 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 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, Education Code, Title 5, and Trustee policy.

We visited the Cal Poly campus from April 17, 2006, through June 8, 2006, and made a study and evaluation of the accounting and administrative control in effect as of June 8, 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, purchasing, revolving fund, 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, Cal Poly's accounting and administrative control in effect as of June 8, 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 the main cashier's office and at one of the three satellite cashiering areas visited. An inventory control system was not in place for press-numbered receipts at the main cashier's office and reconciliations of parking permit inventory to parking permit sales recorded in CashNet were not performed. In addition, transfer receipts were not utilized when transferring funds from continuing education for deposit to the cashier's office.

PURCHASING [7]

Campus procurement card procedures were not always adequately enforced to ensure accountability for equipment assets purchased. A review of procurement card statements for ten employees disclosed that 12 of 13 equipment assets greater than \$500 were not added to the campus property system as required by campus policy. These 12 assets totaled \$10,648.

REVOLVING FUND [8]

Salary advances were not timely recovered and collection activity was not documented. Failure to timely recover salary advances is a repeat finding from the prior FISMA audit. A review of ten salary advances issued between August 2004 and March 2006 disclosed that two salary advances totaling \$926 were outstanding for 21 months as of May 2006, and seven salary advances totaling \$9,008 were recovered between four and eight months following issuance. There was no evidence of documented collection activity for any of these nine salary advances.

CASH DISBURSEMENTS [9]

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. Four accounts payable technicians had the ability to process payments as well as update the vendor master file within PeopleSoft. Furthermore, documented supervisory reviews of new vendors and/or updates to vendor information were not done. Instead, only informal reviews were completed once or twice a year.

FIXED ASSETS [10]

Property acquisitions were not always timely recorded into the accounting records, property survey reports were not always completed, and accountability for equipment assets needed improvement. A review of ten property acquisitions disclosed that in five instances, property was recorded into the accounting records between 107 and 356 days after receipt. Property survey reports were not completed for 11 of 20 assets deleted from the property management system from May 2004 to March 2006 as follows: seven assets totaling \$170,941 transferred to the Cal Poly Corporation; two assets totaling \$10,436 recorded as scrapped; two assets totaling \$36,665 recorded as lost. In addition, a review of assets deleted from the equipment inventory from May 2004 to May 2006 disclosed that assets totaling \$966,355 (acquisition cost) could not be accounted for, and were therefore, reported as lost. Lost personal computers and laptop computers accounted for 56% (\$541,452 acquisition cost) of the total losses reported. In addition, the campus procedures for the investigation of personal confidential information contained on stolen computers were not applied to computers removed from the campus inventory as a result of being lost.

FISCAL INFORMATION TECHNOLOGY [14]

The data center did not have intrusion detection devices to effectively notify appropriate personnel during non-business hours and was not equipped with fire suppression equipment that would help minimize damage to computing equipment in the event of a fire. In addition, access roles and privileges to the PeopleSoft Financial system were not effectively assigned; it contained some accounts and roles that were not used or obsolete.

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 2005 to May 2006. 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 June 8, 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

Cash control weaknesses were found at the main cashier's office and at one of the three satellite cashiering areas visited.

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

Main Cashier's Office

- ▶ Press-numbered receipts were neither utilized in sequential order nor retained for audit purposes, and an inventory control system was not in place. These manual receipts were issued for payments accepted when the CashNet system was non-operational.
- ▶ Reconciliations of parking permit inventory to parking permit sales recorded in CashNet were not performed.

State Administrative Manual (SAM) §8020 states that an inventory control will be kept for press-numbered receipts and a numeric file of copies of receipts and voided receipts will be kept for audit purposes.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

The assistant director of cash management and Generally Accepted Accounting Principles (GAAP) reporting stated that manual receipts were provided to customers on rare occasions and the campus' lack of an inventory control log for those receipt numbers was an oversight. She further stated that reconciliations of parking permit inventory were performed and budget projections were compared to actual parking permit sales; however, not reconciling parking permit inventory to revenue recorded into CashNet was due to oversight.

Continuing Education

Funds for deposit were transferred from continuing education to the main cashier's office without the use of transfer receipts.

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

The assistant director of cash management and GAAP reporting stated that the campus process of transferring the funds included a number of checks and balances; however, the campus had overlooked the need for documented transfer receipts.

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

Recommendation 1

We recommend that the campus:

- a. Implement an inventory control system for press-numbered receipts and retain copies for audit purposes.
- b. Prepare documented reconciliations of parking permit inventory to parking permits recorded as sold in CashNet.
- c. Implement procedures for the use of transfer receipts at continuing education when funds are transferred to the main cashier's office.

Campus Response

We concur.

- a. The main cashier's office will implement an inventory control system that will allow for the quarterly reconciliation of inventory.
- b. A quarterly reconciliation of unsold permits will be prepared.
- c. Procedures will be implemented for the use of transfer receipts between the main cashier's office and continuing education.

Anticipated completion date: December 31, 2006

PURCHASING

Campus procurement card procedures were not always adequately enforced to ensure accountability for equipment assets purchased.

Our review of procurement card statements for ten employees dated between February 2006 and March 2006 disclosed that 12 of 13 equipment assets greater than \$500 were not added to the campus property system as required by campus policy. These 12 assets totaled \$10,648.

The California Polytechnic State University, San Luis Obispo *Procurement Card Handbook*, dated February 2006, states that equipment having a purchase price of \$500 or more must be reported to the property office. Equipment is considered items having a life expectancy of more than one year. Further, any items considered theft sensitive that one would like to have recorded in the property system should be reported.

The assistant director of payroll and payment management stated that the accounts payable technician responsible for reviewing procurement card purchases was under the impression that only invoices for purchases of equipment greater than \$1,000 needed to be recorded in the property system.

Insufficient control over the accountability of equipment increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

Recommendation 2

We recommend that the campus enforce procurement card procedures to ensure that equipment assets greater than \$500 are recorded to the property system.

Campus Response

We concur. Appropriate communication will be provided to the accounts payable staff to ensure that all equipment assets over \$500 are to be recorded in the property system.

Anticipated completion date: December 15, 2006

REVOLVING FUND

Salary advances were not timely recovered and collection activity was not documented. Failure to timely recover salary advances is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act audit.

Our review of ten salary advances issued between August 2004 and March 2006 disclosed that:

- ▶ Two salary advances totaling \$926 were outstanding for 21 months as of May 2006.
- ▶ Seven salary advances totaling \$9,008 were recovered between four and eight months following issuance.
- ▶ There was no evidence of documented collection activity for any of these nine salary advances.

State University Administrative Manual §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 due to staff turnover, available staffing resources, and the need to prioritize work within the payroll office to ensure that pay was issued in a timely manner had, at times, forced collection activity for payroll advances to take a lower priority.

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

Recommendation 3

We recommend that the campus strengthen controls to improve the timely recovery of salary advances and the documentation of collection activity.

Campus Response

We concur. Appropriate steps will be taken to further strengthen our collection of salary advances and documentation of collection activity.

Anticipated completion date: December 15, 2006

CASH DISBURSEMENTS

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments.

Four accounts payable technicians had the ability to process payments as well as update the vendor master file within PeopleSoft. In addition, documented supervisory reviews of new vendors and/or updates to vendor information were not done. Instead, only informal reviews were completed once or twice a year.

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 assistant director of payroll and payment management stated that access to the vendor master file by the accounts payable staff was necessary in order to change vendor addresses and for the

completion of vendor data record forms. He further stated that the campus had implemented a number of mitigating controls to ensure that access to the vendor master file was appropriate.

Failure to maintain adequate control over the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 4

We recommend that the campus:

- a. Take appropriate action to determine if duties could be segregated to restrict vendor update responsibilities.
- b. Conduct formally documented reviews of vendor update activity on a more frequent basis.

Campus Response

We concur. The campus will institute a process to remove unused roles and permissions from active IDs and accounts that are not used by individuals. As part of the Common Management Systems (CMS) HCM 8.9 upgrade (planned for 2007), the campus will be reviewing the campus security processes and assignment of roles and responsibilities to fully address this recommendation.

Anticipated completion date: April 30, 2007

FIXED ASSETS

PROPERTY ACCOUNTING

Property acquisitions were not always timely recorded into accounting records.

Our review of ten property acquisitions dated between October 2004 and October 2005 disclosed that in five instances, property was recorded into the accounting records between 107 and 356 days after receipt.

SAM §8650 indicates that the property records for each property acquisition include date acquired, property description, property identification number, cost or other basis of valuation, owner fund, and rate of depreciation, if applicable. Property records shall include both capitalized and non-capitalized property.

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

The assistant director of general accounting and financial reporting stated that a delay in posting the valuation of one of the sampled assets was due to a receiving report error. He further stated that other delays occasionally occurred because the invoices contained multiple pieces of equipment, and payment might be delayed until the department had notified accounts payable that it had received and accepted all items as invoiced. He added that a shortage of staff had contributed to some delays in timeliness.

Inadequate control over property accounting increases the risk of misstated property records and theft or loss of state property.

Recommendation 5

We recommend that the campus strengthen procedures to ensure that property is recorded to the general ledger in a timely manner.

Campus Response

We concur. The campus will develop procedures to document reasons for delays in the recording of assets to the general ledger.

Anticipated completion date: December 15, 2006

PROPERTY DISPOSITIONS

Property survey reports were not always completed for the disposition of fixed assets.

We found that property survey reports were not completed for 11 of 20 assets deleted from the property management system from May 2004 to March 2006 as follows:

- ▶ Seven assets totaling \$170,941 transferred to the Cal Poly Corporation.
- ▶ Two assets totaling \$10,436 recorded as scrapped.
- ▶ Two assets totaling \$36,665 recorded as lost.

SAM §3520.2 indicates that each agency will have a duly appointed property survey board. It will be the responsibility of the board to determine that the best interest of the state is served in disposing of state property. At least two members of the property survey board will approve all property survey reports and any transfers of location of equipment.

SAM §3520.3 states that when an agency proposes to dispose of state-owned, non-expendable surplus property by sale, by trade-in, or by turning it over to the state and federal Property Reuse Program Office, or by discarding the property, the agency prepares a property survey report (STD. 152) and submits it to the state and federal Property Reuse Program Office for approval. When an agency proposes to transfer such property to another agency or to a unit within the agency, the agency prepares a Transfer of Location of Equipment Form (STD. 158) and submits it to the state

and federal Property Reuse Program Office for approval. The agency may use an agency form in lieu of the STD. 158 for intra-agency transfers between organizational units accounted for in the same general ledger account.

SAM §3520.9 states that when an agency disposes of state-owned surplus personal property by means other than the sale of the property (i.e., salvaged, scrapped, discarded, or hauled to landfill) the agency's responsible employee and unit supervisor shall certify in writing that the disposition has been accomplished. The certification may be made on the STD. 152 or attached and filed with the form. When the agency disposes of the property at a public landfill, the agency's representative obtains the signature of the disposal site operator or attendant, indicating that the property listed was disposed of at the site. If the landfill is unattended, the agency's responsible employee and the unit supervisor shall sign and certify that the disposition described was accomplished.

SAM §8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report Form, STD. 152. The department will adjust its property accounting records and retain the property survey report as documentation.

The assistant director of general accounting and financial reporting stated that the seven assets transferred to the Cal Poly Corporation were documented in a memorandum of understanding (MOU) that the property survey board chairperson assisted in developing. He further stated his belief that the MOU superseded the need for a survey form and added that the MOU was signed by the university and the executive director of the Cal Poly Corporation. He also stated that the remaining four assets for which survey reports were not on file was an oversight, although disposal actions had been initiated in writing by the departments owning the assets.

Insufficient control over fixed asset dispositions increases the risk of inappropriate activities and reduces accountability over state property.

Recommendation 6

We recommend that the campus strengthen procedures to ensure that property survey reports are completed for the disposition of fixed assets.

Campus Response

The campus will revise procedures for completion of survey forms to allow for exceptions when appropriate documentation of the disposal exists.

Anticipated completion date: December 15, 2006

EQUIPMENT LOSSES

Accountability for equipment assets needed improvement.

Our review of assets deleted from the equipment inventory from May 2004 to May 2006 disclosed that assets totaling \$966,355 (acquisition cost) could not be accounted for, and were therefore, reported as lost. Lost personal computers and laptop computers accounted for 56% (\$541,452 acquisition cost) of the total losses reported.

In addition, the campus procedures for the investigation of personal confidential information contained on stolen computers were not applied to computers removed from the campus inventory as a result of being lost.

Executive Order 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

SAM §8643 states that agency management must promptly investigate incidents involving loss, damage, or misuse of information assets.

The assistant director of general accounting and financial reporting stated that an intensive inventory review of the information technology services areas had identified many pieces of computing equipment that could not be located. He continued to state that these assets were declared lost with the expectation that some of the items would eventually be found in other departments on the campus, since their older equipment was commonly repositioned to other colleges within the university. He further stated that the information technology services area indicated that some of the loss occurred during significant turnover of some key technology staff and management, and that movement of equipment assigned to its areas was not properly documented.

Inadequate control over equipment assets, especially those containing personal confidential information, increases the risk of loss and inappropriate use of state resources, and increases campus exposure to information security breaches.

Recommendation 7

We recommend that the campus strengthen controls over the accountability of equipment assets and establish campus procedures for the investigation of personal confidential information contained on computers removed from the campus inventory as a result of being lost.

Campus Response

We concur. In order to decrease the possibility that assets will be reported as missing, improved accountability is being pursued. Campus procedures will be established to determine if personal confidential information is possibly contained on computers reported as missing.

It should be noted that more than half of the equipment loss was for equipment that was over ten years old and had been fully depreciated to a net zero dollar value.

Anticipated completion date: January 31, 2007

FISCAL INFORMATION TECHNOLOGY

DATA CENTER PHYSICAL SECURITY

The data center did not have intrusion detection devices to effectively notify appropriate personnel during non-business hours.

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

The director of technical services stated that the data center doors were alarmed, but that since the graveyard shift had been eliminated, after hour security provisions when the center was unmanned had not been addressed.

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

Recommendation 8

We recommend that the campus consider implementing additional physical intrusion detection devices to monitor access to the data center during non-business hours or modify the existing system to notify security personnel during non-business hours.

Campus Response

We concur. The system will be modified to notify security personnel (university police) during non-business hours.

Anticipated completion date: January 31, 2007

DATA CENTER ENVIRONMENTAL CONTROLS

The data center was not equipped with fire suppression equipment that would help minimize damage to computing equipment in the event of a fire.

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

The director of technical services stated that fire extinguishers were present and that broader suppression equipment was being considered, but had not yet been cost justified.

The absence of fire suppression equipment increases the risk of catastrophic loss of computing equipment and data processing capability.

Recommendation 9

We recommend that the campus conduct a cost/benefit assessment of suppression systems versus the business impact of equipment replacement and impaired production due to a loss of or damage to computing equipment and, should the assessment indicate such, implement a fire suppression system.

Campus Response

We concur. The campus will conduct the recommended cost/benefit assessment and, if indicated, the campus will implement a fire suppression system.

Anticipated completion date: April 30, 2007

PEOPLESOFT ACCESS PRIVILEGES

Access roles and privileges to the PeopleSoft Financial system were not effectively assigned; it contained some accounts and roles that were not used or obsolete.

We found that:

- ▶ Unused security roles had been assigned to some computer user logon accounts.
- ▶ Test logon accounts and other unused IDs had not been removed.

SAM §8080.1 states that each state agency to 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 11 types of duties, including maintaining records file and

operating mechanized equipment, initiating disbursement documents, approving disbursement documents, and 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 technical services stated that the system had been recently upgraded and the system default roles had been inadvertently assigned to some technical user accounts.

Failure to properly limit access to only those who need to perform job duties increases the risk of fraudulent or unauthorized activities.

Recommendation 10

We recommend that the campus review access privileges and take appropriate action to segregate duties and restrict update responsibilities. Specifically, the campus should remove unused roles and permissions from active IDs and accounts that are not specifically assigned to an individual.

Campus Response

We concur. The campus will institute a process to remove unused roles and permissions from active IDs and accounts that are not used by individuals. As part of the CMS HCM 8.9 upgrade (planned for 2007), the campus will review the campus security processes and assignment of roles and responsibilities.

Anticipated completion date: April 30, 2007

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Warren J. Baker	President
Karen Aguilar	Accountant
Elizabeth Allen	Cashiering Supervisor
Cheryl Andrus	Business Services Assistant, University Police Department
Irma Arellano	Information Technology Specialist, Continuing Education
Marc Benadiba	Assistant Director of Payroll and Payment Management
Laurie Borello	Financial Coordinator, Common Management Systems
Victor Brancart	Business Analyst
Deborah Brothwell	Director of Budget and Analytic Business Services
Marlene Carter	Associate Registrar
Kathleen Cook	Executive Assistant to the Vice President
Scott Cooke	Assistant Director of General Accounting and Financial Reporting
Marlene Cramer	Business Services Coordinator, University Police Department
Judy Dostal	Visitor Information Booth Supervisor, University Police Department
James Feld	Network Analyst
Jody Fisher	Accounts Receivable Lead
Janis Grieb	Student Accounts Supervisor
Carol Johnston	Accounts Payable Supervisor
Lawrence Kelley	Vice President for Administration and Finance
Traci Kuchta	Contracts Manager
Lorlie Leetham	Director of Fiscal Services
Frank Limon	Distribution Services Supervisor
Dario Luis	Director of Continuing Education
Johanna Madjedi	Director of Communications and Computing Services
Valerie Maijala	Buyer
Ryan Matteson	Analyst/Programmer, Office of the Chief Information Officer
Gregory Melnyk	Purchasing Manager
Barbara Melvin	Director of Human Resources
Kimberly Perez	Assistant Director of Cash Management and GAAP Reporting
Vivian Phillips	Administrative Analyst/Specialist, Health Services Center
Cindy Piper	Accounting Technician
Richard Ramirez	Associate Vice President for Finance
Nancy Reynolds	Assistant Director of Fiscal Services
Matthew Roberts	Director of Contract and Procurement Services
Vanessa Scrimiger	Registration Supervisor, Continuing Education
Vicki Stover	Associate Vice President for Administration and Information Security Officer
Fred Strasser	Property Supervisor
Rich Walls	Coordinator, Central Systems Administration
George Yelland	Director of Technical Services, Administration and Finance Division

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

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San Luis Obispo, CA 93407

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RECEIVED
UNIVERSITY AUDITOR

NOV 20 2006

THE CALIFORNIA STATE
UNIVERSITY

November 16, 2006

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

Subject: Audit Report Number 06-05, *FISMA*, at California Polytechnic State University, San Luis Obispo

Dear Larry:

Attached is the campus response to recommendations of Audit Report Number 06-05, *FISMA*, as well as a computer disk with this information.

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: W. Baker
W. Durgin
R. Ramirez
L. Leetham
T. Kearns

FISMA

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

**Report Number 06-05
October 12, 2006**

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Implement an inventory control system for press-numbered receipts and retain copies for audit purposes.
- b. Prepare documented reconciliations of parking permit inventory to parking permits recorded as sold in CashNet.
- c. Implement procedures for the use of transfer receipts at continuing education when funds are transferred to the main cashier's office.

Campus Response

We concur.

- a. The main cashier's office will implement an inventory control system that will allow for the quarterly reconciliation of inventory.
- b. A quarterly reconciliation of unsold permits will be prepared.
- c. Procedures will be implemented for the use of transfer receipts between the main cashier's office and continuing education.

Anticipated Completion Date: December 31, 2006

PURCHASING

Recommendation 2

We recommend that the campus enforce procurement card procedures to ensure that equipment assets greater than \$500 are recorded to the property system.

Campus Response

We concur. Appropriate communication will be provided to the Accounts Payable staff to ensure that all equipment assets over \$500 are to be recorded in the property system.

Anticipated Completion Date: December 15, 2006

REVOLVING FUND

Recommendation 3

We recommend that the campus strengthen controls to improve the timely recovery of salary advances and the documentation of collection activity.

Campus Response

We concur. Appropriate steps will be taken to further strengthen our collection of salary advances and documentation of collection activity.

Anticipated Completion Date: December 15, 2006

CASH DISBURSEMENTS

Recommendation 4

We recommend that the campus:

- a. Take appropriate action to determine if duties could be segregated to restrict vendor update responsibilities.
- b. Conduct formally documented reviews of vendor update activity on a more frequent basis.

Campus Response

We concur. The campus will institute a process to remove unused roles and permissions from active ID's and accounts that are not used by individuals. As part of the CMS HCM 8.9 upgrade (planned for 2007), the campus will be reviewing the campus security processes and assignment of roles and responsibilities to fully address this recommendation.

Anticipated Completion Date: April 30, 2007

FIXED ASSETS

PROPERTY ACCOUNTING

Recommendation 5

We recommend that the campus strengthen procedures to ensure that property is recorded to the general ledger in a timely manner.

Campus Response

We concur. The campus will develop procedures to document reasons for delays in recording of assets to general ledger.

Anticipated Completion Date: December 15, 2006

PROPERTY DISPOSITIONS

Recommendation 6

We recommend that the campus strengthen procedures to ensure that property survey reports are completed for the disposition of fixed assets.

Campus Response

The campus will revise procedures for completion of survey forms to allow for exceptions when appropriate documentation of the disposal exists.

Anticipated Completion Date: December 15, 2006

EQUIPMENT LOSSES

Recommendation 7

We recommend that the campus strengthen controls over the accountability of equipment assets and establish campus procedures for the investigation of personal confidential information contained on computers removed from the campus inventory as a result of being lost.

Campus Response

We concur. In order to decrease the possibility that assets will be reported as missing, improved accountability is being pursued. Campus procedures will be established to determine if personal confidential information is possibly contained on computers reported as missing.

It should be noted that more than half of the equipment loss was for equipment that was over ten years old and had been fully depreciated to a net zero dollar value.

Anticipated Completion Date: January 31, 2007

FISCAL INFORMATION TECHNOLOGY

DATA CENTER PHYSICAL SECURITY

Recommendation 8

We recommend that the campus consider implementing additional physical intrusion detection devices to monitor access to the data center during non-business hours or modify the existing system to notify security personnel during non-business hours.

Campus Response

We concur. The system will be modified to notify security personnel (University Police) during non business hours.

Anticipated Date of Completion: January 31, 2007

DATA CENTER ENVIRONMENTAL CONTROLS

Recommendation 9

We recommend that the campus conduct a cost/benefit assessment of suppression systems versus the business impact of equipment replacement and impaired production due to a loss of or damage to computing equipment and, should the assessment indicate such, implement a fire suppression system.

Campus Response

We concur. The campus will conduct the recommended cost/benefit assessment and, if indicated, the campus will implement a fire suppression system.

Anticipated Date of Completion: April 30, 2007

PEOPLESOFT ACCESS PRIVILEGES

Recommendation 10

We recommend that the campus review access privileges and take appropriate action to segregate duties and restrict update responsibilities. Specifically, the campus should remove unused roles and permissions from active IDs and accounts that are not specifically assigned to an individual.

Campus Response

We concur. The campus will institute a process to remove unused roles and permissions from active ID's and accounts that are not used by individuals. As part of the CMS HCM 8.9 upgrade (planned for 2007), the campus will review the campus security processes and assignment of roles and responsibilities.

Anticipated Date of Completion: April 30, 2007


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

December 1, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

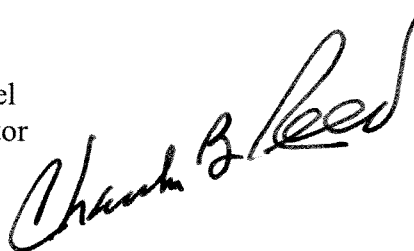
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 06-05 on *FISMA*,
California Polytechnic State University, San Luis Obispo

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of December 1, 2006, I accept the response as submitted with the draft final report on *FISMA*, California Polytechnic State University, San Luis Obispo.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

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

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS