

FISMA

**CALIFORNIA STATE UNIVERSITY
SAN MARCOS**

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ABBREVIATIONS

ATF	Academic Transaction Form
ASTF	Administrative Staff Transaction Form
CSU	California State University
CSUSM	California State University San Marcos
FISMA	Financial Integrity and State Manager's Accountability Act
FTB	Franchise Tax Board
IT	Information Technology
PO	Purchase Order
SAM	State Administrative Manual
SUAM	State University Administrative Manual
TEC	Travel Expense Claim
T&SF	Track & Soccer Field

INTRODUCTION

PURPOSE

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

- ▶ cash receipts are processed in accordance with laws, regulations and management policies;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management policies;
- ▶ revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies;
- ▶ cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists;
- ▶ payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled and access to personnel and payroll records and processing areas are restricted;
- ▶ purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records;
- ▶ physical computer controls are in place and functioning;
- ▶ investments are adequately controlled and securities are safeguarded; and
- ▶ trust funds are established in accordance with SUAM guidelines.

SCOPE AND METHODOLOGY

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 1998-1999 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 1999 to February 2000. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ procedures for receipting and storing cash, segregation of duties involving cash receipting and recording of cash receipts;
- ▶ establishment of receivables and adequate segregation of duties regarding billing and payment of receivables;
- ▶ approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;
- ▶ limitations on the size and types of revolving fund disbursements;
- ▶ use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;
- ▶ authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies;
- ▶ posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;
- ▶ access restrictions to automated accounting systems and proper documentation of the systems;
- ▶ procedures for initiating, evaluating, and accounting for investments; and
- ▶ establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. The Office of the University Auditor of the CSU is currently responsible for conducting such audits within the CSU. This report represents our biennial review.

OPINION

We visited the CSU San Marcos campus from March 7, 2000 through May 5, 2000, and made a study and evaluation of the accounting and administrative control in effect as of May 5, 2000. Our study and evaluation was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

CSU San Marcos management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections §13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5 and Trustee policy.

Our audit disclosed conditions which, in our opinion, if not corrected would result in significant errors and irregularities. Specifically, the campus did not maintain adequate internal control over the following areas: Cash Receipts, Revolving Fund and Trust Funds. Areas needing improvement are found in the Executive Summary.

These conditions, along with other weaknesses, are described in the Executive Summary below and in the body of the report.

In our opinion, due to the effect of the weaknesses described above, the CSU San Marcos accounting and administrative controls in effect as of May 5, 2000, taken as a whole, were not sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent these limitations from occurring would not be cost effective; moreover, an audit may not always detect these limitations.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CASH RECEIPTS [7]

SATELLITE CASHIERING [7]

Internal control weaknesses were found in the satellite cashiering location for parking operations. Adequate accounting and control of cash collections and deposits decrease the risk that misappropriation of funds will not be detected.

UNCLEARED COLLECTIONS [7]

Uncleared collections were not reviewed and cleared in a timely manner. Timely processing of uncleared collections decreases the risk of understated revenues and reimbursement, overstated expenditures, and loss of interest on special funds.

FEE RECONCILIATIONS [8]

Mandatory fee reconciliations were not occurring timely. The problem in reconciling application fees is a repeat from our prior FISMA audit. The timely reconciliation of fee collections reduces the risk that errors or misappropriation of fees will not be detected.

ACCOUNTS RECEIVABLE [9]

Procedures for recording, billing, collecting, and discharging accounts receivable need improvement. Adequate procedures limit potential revenue loss.

PURCHASING [11]

Funding and construction of the campus track and soccer field was inappropriately accomplished. Proper funding and documentation for campus construction projects reduce the risk of non-compliance with statutes of CSU and other regulating agencies.

REVOLVING FUND [15]

REVOLVING FUND RECONCILIATION [15]

Revolving fund reconciliations were untimely and incomplete. Performance of timely reconciliations decreases the risk that errors and irregularities will not be detected.

PETTY CASH/CHANGE FUNDS [15]

Independent cash counts of petty cash/change funds did not always occur with the required frequency. Timely counts of properly authorized petty cash and change funds decrease the risk that missing funds will not be detected.

TRAVEL ADVANCES [16]

Oversight of travel advances and claims was in need of improvement. Adequate oversight decreases the risk of loss of funds and inappropriate reimbursements.

SALARY ADVANCES [18]

Salary advances were not always properly supported or collected in a timely manner. This is a repeat from our prior FISMA audit. Strengthening controls over payroll transactions increase working capital and decrease the likelihood that amounts owed will not be collected.

CASH DISBURSEMENT [19]

BLANK CHECK STOCK [19]

Blank check stock was not adequately controlled. Proper controls over blank check stock reduce misuse of funds.

BANK RECONCILIATION [20]

Bank reconciliations were not completed timely. Timely completion of bank reconciliations reduces the risk that errors and irregularities will not be detected.

VENDOR DATA RECORDS [20]

The campus did not consistently complete the vendor Data Record for all vendors. Obtaining such information prior to payment reduces exposure to Internal Revenue Service penalties and fines.

PAYROLL/PERSONNEL [21]

Pre-authorization procedures related to overtime approval were in need of improvement. This is a repeat from our prior FISMA audit. Obtaining such pre-authorization reduces the risk of unnecessary overtime payments.

FIXED ASSETS [22]

TAGGING AND RECORDING PROPERTY [22]

Procedures regarding tagging and recording of property items were inadequate. This is a repeat from our prior FISMA audit. Proper tagging and recording of acquisitions reduces the potential for lost or stolen property and increases the accuracy of property inventory records.

PROPERTY SURVEY REPORTS [23]

Property survey reports were not properly completed. This is a repeat from our prior FISMA audit. Proper completion of property survey reports strengthens accountability over disposal of state property.

FISCAL IT [25]

The setup configuration for passwords in the system security software was inadequate. Proper administration of access security reduces the risk of inappropriate access to financial and student data.

TRUST FUND ADMINISTRATION [26]

Trust fund administration was in need of improvement. Adequate administration over such funds reduces the risk that trust funds are not adequately documented, trust expenditures are not authorized, and errors or misappropriations are not detected.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Internal control weaknesses were found in the satellite cashiering location for parking operations.

All funds collected by each individual working the parking operations counter were placed in a file drawer before deposit. The unsold parking permits from the cashier's office were not verified upon return to parking. There was no reconciliation of parking permits issued to revenue received from those sold.

SAM §20003 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets. This includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

SAM §8080 states "No one person shall perform more than one of the following seven types of duties: (1) Receiving and depositing remittances ... (7) Initiating or preparing invoices."

The director of accounting services reported that daily parking receipts are sent to the cashier's office with a recap of sales and money collected.

Inadequate accounting and control of cash collections and deposits increase the risk that misappropriation of funds will not be detected.

Recommendation 1

We recommend that the campus review parking operation staffing responsibilities for appropriate segregation of duties and establish mitigating controls where incompatible duties are found.

Campus Response

We concur. By June 30, 2001, the University will review parking operations to identify and correct issues regarding the segregation of duties.

UNCLEARED COLLECTIONS

Uncleared collections were not reviewed and cleared in a timely manner.

We noted the following:

- ▶ the last documented reconciliation was for the February 2000 account balance;
- ▶ the total amount outstanding as of February 2000 was \$79,138.57. Approximately \$15,839 was over 90 days old; and
- ▶ the clearing of these items was a joint process between accounting and cashiers, and communication between the two entities was not sufficient to accomplish the timely clearing of uncleared collections.

SAM §10452 indicates, in part, that this account (uncleared collections) shows: the amount of cash collections being checked to determine if they are to be accepted for a fund in the state treasury or are to be refunded to payers; and a representation of the types of reimbursements that must be applied at the time they are ordered into the state treasury.

The director of accounting services indicated that the procedures to clear and reclass uncleared collection activity had not been assumed by new staff.

Uncleared collections that are not processed in a timely manner result in understated revenues and reimbursements or overstated expenditures and can result in a loss of interest to special funds.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that uncleared collections are researched and resolved in a timely manner.

Campus Response

We concur. The University has been in compliance with this recommendation since October 2000.

FEE RECONCILIATIONS

Mandatory fee reconciliations were not occurring timely. Untimely application fee reconciliations is a repeat finding from our prior FISMA audit.

We noted the following:

- ▶ the campus was completing application fee reconciliations annually rather than for each academic term; and
- ▶ the state university fee reconciliation for Fall 1998 was completed four months late.

SUAM §3825.01 requires that a reconciliation of applications to application fees be prepared for each academic term and maintained on file by each campus.

The director of accounting services indicated that there is a commitment to complete the reconciliations by end-of-term, but the department has encountered problems associated with cut off dates for data.

Untimely fee reconciliations increase the risk that errors and irregularities will not be detected.

Recommendation 3

We recommend that the campus perform timely reconciliations of application and state university fees received each academic term.

Campus Response

We concur. By January 31, 2001 the University will complete the reconciliation of application fees and state university fees for the Fall term ended December 2000. By June 30, 2001, the University will complete the reconciliation of application fees and state university fees for the Spring term ended May 2001.

ACCOUNTS RECEIVABLE

Procedures for recording, billing, collecting, and discharging accounts receivable need improvement.

We noted the following:

Recording

- ▶ accounts receivable were maintained by health services, the library, and parking and were recorded in Banner only at year-end. As of March 17, 2000, the health center had outstanding receivables totalling \$1,442, and parking totalled \$90,000. As of April 2000, the library system database included receivables of \$17,628.45;

Billing

- ▶ billing notices sent to sponsors did not reflect the accurate date and charges owed;
- ▶ student late charges were not always applied properly. Five of the ten student accounts reviewed were not properly assessed or reversed;

Collecting

- ▶ the library was not maintaining an aging schedule, the purpose of which is to determine the total amount owed the campus and the length of time individual accounts are outstanding;
- ▶ collection attempts on individual student accounts did not follow established guidelines for collection letters after accounts are delinquent for 30, 60 and 90 days. Students received billing notices only twice per year;

- ▶ account follow-up activity was not consistently documented for non-student receivables;
- ▶ collection efforts for sponsor accounts receivable were not always timely. Four of the five sponsor accounts reviewed were not timely and one had no documented follow-up;

Discharging

- ▶ use of write-off or relief from accountability efforts were not properly utilized. The campus was not requesting relief from accountability from the state for aggregate account balances exceeding \$1,000; and
- ▶ paid accounts receivable were not cleared timely through the campus payment system. Although four of the five accounts reviewed were cleared, they remained on the system report.

SAM §8776.6 to §8776.7 and Chancellor's Office Executive Order No. 616 establish requirements for collecting and writing-off receivables, including the frequency of collection follow-up and options available when amounts seem uncollectible.

SUAM §3822 requires each campus to establish procedures that provide prompt follow-up of accounts receivable.

Executive Order No. 616 delegated authority to the campuses for local adjustments of up to \$1,000.

The director of accounting services indicated that while billing statements are sent to individual students, a listing of statement recipients is not captured and archived. Additionally, the director stated that accounts receivable balances for parking fines and library fines are maintained monthly by the departments with the value being recorded annually in the general ledger.

Incomplete collection and discharge/relief from accountability efforts increase the risk that receivables are not properly controlled and collected.

Recommendation 4

We recommend that the campus strengthen accounts receivable procedures to address the issues noted in the audit.

Campus Response

We concur. By August 31, 2001, the University will:

- a. Review and update procedures as necessary regarding the recording of monthly AR balances from non-registration related sources.
- b. Review and update billing procedures as necessary to mitigate findings.
- c. Due to the scope of the finding, a significant process review will need to take place. By December 21, 2001 the university will undertake a systems review across multiple programs and non-integrated systems and make recommendation on a procedure to aggregate student balances in excess of \$1,000 before initiating the write-off process for individual debts.

PURCHASING

Funding and construction of the campus track and soccer field was inappropriately accomplished.

In the fall of 1998, CSUSM students passed a fee referendum in support of the construction of a campus track and soccer field (T&SF). Both the campus and the CSUSM Foundation made various arrangements relating to its construction and management. We found that:

- ▶ a campus mandatory recreation fee (Fee) was improperly used to fund a capital outlay project;
- ▶ agreements involving the campus and the CSUSM Foundation (Foundation) were ambiguous and confusing in terms of responsibility for constructing and maintaining the T&SF; and
- ▶ a CSU Special Projects Fund (Fund 947) was improperly utilized.

Recreation Fee

Campus documents indicate that students approved a fee to construct a T&SF; however, the Fee as approved by the Chancellor could not be properly used to fund construction.

Specifically, in April 1998, the campus held an advisory student referendum to establish the Fee. Referendum documentation presented to us by the campus specifically states that the Fee was to be used to construct a T&SF, among other things. The Fee was authorized and established in August 1998 by Executive Order No. 687 as a campus mandatory recreation fee appropriated for the support of the university.

In October 1999, the campus determined that it cost over \$1,700,000 to construct the T&SF. The principal method of financing the construction was to borrow the money through inter-fund loans which are authorized under Education Code §89760. On June 18, 1998, the campus executed an agreement to borrow \$1 million from the Facilities Revenue Fund – Health Facilities (Fund 581).

The original loan agreement underwent several revisions. In the loan agreement amendment dated July 9, 1998 (revised July 31, 1998), an additional \$200,000 was added from Fund 948. The loan from Fund 581 was increased by \$200,000 through the agreement amendment dated April 5, 1999 bringing the final inter-fund loan commitments for the T&SF to:

AMOUNT	SOURCE
\$1,200,000	Facilities Revenue Fund – Health Facilities (Fund 581)
\$200,000	Student Union Reserve Fund (Fund 948)
\$1,400,000	Total of Inter-fund Loans as of April 5, 1999

Fee revenues, which began in the fall of 1998, were pledged to repay these loans. Amounts attributed to the Student Union Reserve Fund were as of the date of this report no longer outstanding, according to the campus.

Executive Order No. 687 states that the campus is authorized to establish a campus mandatory Recreation Fee of \$70 per academic year. Pursuant to §89724(a) of the Education Code, money received from this fee is appropriated for the support of the university in addition to such other amounts as may be appropriated therefore by the Legislature. Revenues received from this fee shall be deposited into and maintained in local trust accounts in accordance with Education Code §89721(h).

Education Code §89724 states that except as to the fees and charges specified in subdivisions (g) and (h) of §89721, all money collected as fees from students in any state university and from other persons under §89700 is hereby appropriated for the support of the California State University in addition to such other amounts as may be appropriated therefore by the Legislature.

Education Code §89721(h) indicates that monies received from fees for instructionally related activities as defined by the trustees and as authorized by §89700 and revenues derived from the conduct of the instructionally related activities may be deposited in local trust accounts. The trustees shall have all authority necessary to administer and use the fees and revenues received and deposited to support such instructionally related activities.

The associate vice president for administrative services indicated that various alternatives were explored at the campus and in consultation with the Chancellor's office and the campus proceeded with the project as described as it was deemed the best alternative to meeting the intent of the student recreation fee referendum.

Campus-Foundation Agreements

There were two agreements involving the campus and the Foundation on the T&SF both dated July 31, 1998 and extending for ten years as follows:

- ▶ The campus initiated one agreement with the Foundation for “construction and operation of track and field facilities and activities on the campus”.
- ▶ The Foundation initiated an agreement with the campus whereby the campus shall:

- construct and operate the track and field-related facilities for their intended purposes; and
- provide all necessary maintenance and support services.

In a circular fashion, these agreements initially executed on July 31, 1998 appear to transfer construction responsibilities and operational commitments to the other party. We found that prior to this agreement being executed, the campus had opened the project for bid on June 4, 1998, had executed a construction contract with a contractor on July 16, 1998, and then issued a notice to proceed on August 3, 1998. Our understanding is that the campus always planned to construct the T&SF because the Foundation lacked the necessary expertise and staff. The fact that the agreements do not relate to what had already transpired is confusing from a construction standpoint.

Construction on the T&SF did not start until August 3, 1998, and the T&SF did not open for general use until June 1, 1999. Before June 1, 1999, there was nothing for the Foundation to operate.

We also noted the following weaknesses in the agreements. The:

- ▶ nature and scope of the track program was not articulated;
- ▶ specific requirement of the track and field facilities and activities was not described;
- ▶ legal consideration exchanged under agreements was not sufficiently articulated;
- ▶ actual funding source (student fees) was not explicit; and
- ▶ reimbursement of all state costs incurred beyond those paid to the contractor.

Title 5 §42502 states that the operating agreement should specify the function or functions, which the organization is to manage, operate or administer.

Education Code §89046 requires reimbursement to the campus for leased space. CSU Contract Services and Procurement prescribe the components of a facility lease between the trustees and a support services organization.

CSU coded memo BA 83-30 requires auxiliaries to pay for services provided by the campus. Further, recently executed Executive Order No. 753, *Allocation of Costs to Auxiliary Enterprises* established the responsibility for auxiliaries to pay allowable direct cost plus an allowable portion of indirect cost associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The associate vice president for administrative services indicated that again various alternatives were explored at the campus, and it proceeded with the project as described as it was deemed the best alternative to meeting the intent of the student recreation fee referendum.

Fund Accounting

The fund that received the T&SF loan proceeds was improperly used.

According to the inter-fund loan agreement dated May 21, 1999, the \$1.4 million in inter-fund T&SF loans was deposited to the CSU Special Projects Fund (Fund 947). We found that s no explicit provision for construction of facilities such as the T&SF through Fund 947 exists.

Education Code §89725 states that notwithstanding any other provision of law to the contrary, grants, revenues, and funds of any nature received by the trustees for research, workshops, conferences, institutes, and special projects from the state, federal government, local government, or private persons, may be transmitted to the Treasurer and, if transmitted, shall be deposited in the State Treasury to the credit of the California State University Special Projects Fund, which fund is hereby created. Education Code §89725 further states that all such grants, revenues, and funds are hereby appropriated without regard to fiscal years to the trustees for the operation, support, and development of research, workshops, conferences, institutes, and special projects in the California State University, not capital projects.

The associate vice president for administrative services indicated that this account was used as the campus was unable to identify any account which would have met the unique circumstances arising from the T&SF project.

Recommendation 5

We recommend that the campus seek advice from CSU Counsel on how to proceed in correcting inadequacies noted and consider the following actions:

- a. revising the T&SF lease and operating arrangements and seek appropriate confirming approvals where necessary; and
- b. perform a final accounting of the special project fund associated with the construction and properly settle and close the account, including proper reimbursements of amounts owed for unreimbursed costs incurred by the campus.

Campus Response

We concur. By June 30, 2001, the University will:

- a. revise the Track & Soccer Field lease and operating agreements as advised by CSU Counsel, and obtain appropriate confirming approvals where necessary; and
- b. perform a final accounting of the special project fund associated with the Track & Soccer Field construction, including reimbursement to the campus for costs.

REVOLVING FUND

REVOLVING FUND RECONCILIATION

Revolving fund reconciliations were untimely and incomplete. The last two GAAP audit management letters noted that the campus was not timely in their completion of reconciliations.

We noted the following:

- ▶ for the three months (April, May, and June 1999) reviewed, a material cash difference had not been reclassified;
- ▶ the completion of revolving fund reconciliations was not timely. We noted that for April through June 1999, all reconciliations were completed in July and after year-end reporting; and
- ▶ the completion of the June 1999 reconciliation was not documented with a supervisor's review.

SAM §7900 requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7908 states that all reconciliations will show the name of the preparer and the reviewer. In addition, the date prepared and reviewed will be shown on the reconciliations.

The director of accounting services reported that procedures to reconcile the revolving fund in the non-FRS finance system had been drafted, but staffing issues and position recruiting have delayed completion.

The timeliness of reconciliations affects the campus' ability to detect errors and irregularities.

Recommendation 6

We recommend that the campus:

- a. immediately begin completion of the revolving fund reconciliations including identification and clearing of large unreconciled amounts; and
- b. complete the revolving fund reconciliations timely with appropriate supporting documentation.

Campus Response

We concur. By February 28, 2001, the University will have identified and reclassified transactions miscoded to the revolving fund due to system error. And, by June 30, 2001 the University will produce timely revolving fund reconciliations.

PETTY CASH/CHANGE FUNDS

Independent cash counts of petty cash/change funds did not always occur with the required frequency.

We noted the following:

- ▶ for the period of September 1999 to January 2000, nine funds did not receive their required monthly counts; and
- ▶ for the period of September 1999 to January 2000, one count for the five funds requiring quarterly reviews was not completed.

SAM §8111.2 requires an employee, other than the custodian of the petty cash or change fund, to count each fund in accordance with the following schedule:

Size of Fund	Frequency of Count
\$200.00 or less	Annually
\$200.01 to \$500.00	Quarterly
\$500.01 to \$2,500.00	Monthly
Over \$2,500.00	At least monthly

The university controller indicated that procedures were in place to ensure that cash counts were completed properly and timely. The interpretation to hold auxiliary petty cash funds to SAM requirements was new.

Without timely counts of properly authorized change funds, there is an increased risk that missing funds will not be detected.

Recommendation 7

We recommend that the campus conduct timely counts of its petty cash funds.

Campus Response

By June 30, 2001, the University will comply and notify Auxiliary organizations that petty cash funds controlled by University employees will be audited to the same SAM requirements as state petty cash funds. State petty cash funds are counted and balanced by two individuals at each request for reimbursement. Reimbursement of petty cash funds generally occurs more often than the monthly SAM requirement to count the fund.

Additional counts have been initiated and the campus has been in compliance since February 2000.

TRAVEL ADVANCES

Oversight of travel advances and claims was in need of improvement.

We reviewed six travel advances and noted the following:

- ▶ reconciliations were not being completed for travel advances;
- ▶ aging schedules were not maintained for travel advances;
- ▶ five travel advances, paid for conference travel not taken, had not been recovered; and
- ▶ one travel advance was cleared by the employee but never claimed.

SAM §8116.2 states, in part, that a periodic statement must be sent no less frequently than bi-monthly to notify employees who have travel advances but have not submitted a travel expense claim to substantiate the travel expenses or have not returned any excess travel advance amount.

SAM §8116.3 states, in part, that if an employee does not submit a travel expense claim or return any excess travel advance amount within 30 calendar days, the advance or excess advance should be deducted from the next regular payroll warrant.

The general accounting supervisor indicated that it was his understanding that the reconciliation and aging for travel advances was performed and maintained in accounts payable. Additionally, the director of financial services indicated that they have not developed a solution for correcting those outstanding advances whereby the individual did not attend the conference.

Inadequate oversight of travel advances and claims increases the risk that funds will be lost and inappropriate reimbursements will be made.

Recommendation 8

We recommend that the campus strengthen controls to ensure that:

- a. outstanding travel advances are resolved in accordance with SAM;
- b. an appropriate aging for travel advances is maintained and travel advances are added to the revolving fund reconciliation for such advances; and
- c. reimbursed travel claims are claimed, scheduled and cleared timely.

Campus Response

We concur. By June 30, 2001, the University will:

- a. clear travel advances where the travel did not occur due to normal business occurrences such as illness, or conflict in schedule; and
- b. issue a reminder to the campus business managers that travel advances be cleared in a timely manner.

Additionally, the scope of the recommendation dictates that a significant systems analysis effort be undertaken to design and implement an aged travel report. By October 31, 2001, the University will develop a methodology to age travel advances.

SALARY ADVANCES

Salary advances were not always properly supported or collected in a timely manner. This is a repeat from our prior FISMA audit.

The May 1999 payroll revolving fund balances indicated that approximately \$24,617.56 in salary advances had been outstanding longer than 90 days with transactions dating back six years.

A sample of 8 transactions was reviewed for supporting documentation and collection efforts. We noted the following concerns:

- ▶ the last reconciliation for salary advances was completed in May 1999;
- ▶ seven of the eight transactions reviewed were cleared by payroll but accounting had not removed the items from the aging schedule; and
- ▶ documentation of follow-up activity on outstanding salary advances was incomplete and two files did not have any documented follow-up activity.

SUAM §3813 requires prompt clearance of revolving fund payroll transactions. Generally, the time period for recovery of salary advances should not exceed sixty days.

In addition, SAM §8595 and SAM §8776.6 require the clearance of revolving fund payroll transactions through offset against subsequent payroll warrants or use of relief from accountability.

The associate director of human resources indicated that procedures are in place to ensure that payroll advances receive timely and adequate follow-up. The director of accounting services reported that while human resources monitored salary advance activity, the payroll advance reconciliation conducted by the accounting staff was not timely due to workload issues.

Not strengthening procedures related to payroll advances increases the risk that monies owed will not be collected.

Recommendation 9

We recommend that the campus:

- a. perform salary advance follow-ups no less than every sixty days with retention of appropriate documentation; and
- b. perform a timely review of the salary advance aging to general ledger activity to ensure timely clearing of salary advances.

Campus Response

We concur. By June 30, 2001, the University will:

- a. strengthen controls to existing collection procedures by following up on and clearing outstanding salary advances every sixty-days; and
- b. place adequate documentation in files at the time the advance is issued.

CASH DISBURSEMENT

BLANK CHECK STOCK

Blank check stock was not adequately controlled.

We noted that the accounting department safe was accessible by two administrative employees, thus granting them direct access to manual checks and the check signer machine key.

SAM §8041 states that blank check stock will be kept under strict control at all times.

SAM §20003 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets. This includes a plan of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The director of accounting services reported that checks are printed on blank safety paper that was adequately safeguarded and that steps taken to meet segregation of duties had neglected to consider a only a small supply of printed check stock is kept on hand in the department for emergency purposes.

Blank check stock that is not adequately controlled is subject to potential theft, misuse, and the resulting loss of state funds.

Recommendation 10

We recommend that the campus ensure that blank check stock is provided adequate protection.

Campus Response

We concur. Emergency blank check stock previously protected by the office safe has now been placed inside a lock-box, inside the office safe. Office staff with safe access do not have access to the lock-box, and the employee with access to the lock-box does not have access to the office safe. This new setup was adopted upon the recommendation of the FISMA auditor.

BANK RECONCILIATION

Bank reconciliations were not completed timely.

At the time of our review, the last completed reconciliation was for July 1999. During the audit, the campus completed reconciliations through November 1999.

SAM §7900 states, in part, that all reconciliations will be prepared monthly within thirty days of the preceding month.

The director of accounting services indicated that bank reconciliation procedures are in place, but the task had fallen behind due to turnover in staff.

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

Recommendation 11

We recommend that the campus strengthen procedures to ensure that bank reconciliations are completed timely.

Campus Response

We concur. The University hired a temporary Accountant I in August 2000 to focus on bank reconciliations. The University is currently in compliance and will continue to place a priority on completing timely bank reconciliations.

VENDOR DATA RECORDS

The campus did not consistently complete the Vendor Data Record for all vendors.

We reviewed 60 payable transactions and noted that the resident/non-resident section of the Vendor Data Record was not completed on six occasions.

SAM §8422.190 requires a Vendor Data Record (Form 204) to be kept on file for payments of at least \$600 to all non-governmental entities and payments to individuals, medical corporations and

partnerships. If the Form 204 is not completed by the vendor and the required data is not otherwise provided, the payment is to be reduced by 31 percent for federal withholding.

Under the Internal Revenue Service Code §6041, a state agency that fails to obtain the Tax Identification Number or fails to file timely information returns is subject to a penalty of up to \$50 per annual information return to a maximum of \$250,000. In addition, the state agency can be assessed a 31 percent federal backup income tax withholding on amounts that were incorrectly reported or were not withheld. Additional penalties, fines, and interest may be assessed by the IRS and/or State Franchise Tax Board.

The accounts payable lead indicated that efforts are in place to ensure the collection of Form 204 from all vendors. However, vendors had not been routinely contacted to supply missing residency information when the Form 204 was returned with the status unmarked.

Recommendation 12

We recommend that the campus complete the resident/non-resident section of the Vendor Data Records (Form 204) for all non-governmental entities.

Campus Response

We concur. By February 28, 2001, the University AP and Procurement employees will not accept incomplete Vendor Data Records and will return such documents to the vendor for completion.

Vendors with incomplete Vendor Data Records will be given the same non-payment status as not having returned the form.

PAYROLL/PERSONNEL

Pre-authorization procedures related to overtime approval were in need of improvement. This is a repeat from our prior FISMA audit.

The following was noted regarding overtime reporting. We reviewed ten employees and found:

- ▶ six overtime documents were not approved in advance of work being completed;
- ▶ one form did not have a signature for pre-authorization;
- ▶ two documents did not include the date of approval;
- ▶ the reason for the overtime worked was not documented on two forms; and
- ▶ no overtime form was available for two employees who worked overtime.

SAM §8540 requires that, as a general practice, compensation for overtime, either by cash payment or time off, should be based upon prior written approval signed by a designated supervisor.

The associate director of human resources indicated that overtime procedures had been discussed a number of times and staff was aware of the need to pre-approve overtime. She further indicated that the payroll department did not utilize any form of signature verification for the academic transaction forms/administrative staff transaction forms.

Inadequate authorization controls over payroll and personnel transactions increase the likelihood that payroll errors or irregularities will occur.

Recommendation 13

We recommend that the campus review and strengthen overtime pre-authorization controls.

Campus Response

We concur. By June 30, 2001, HR&EO will conduct an audit of current overtime forms and any incomplete documents will be returned to the originator.

The campus provides continuous campuswide training to attendance clerks on overtime and attendance procedures. This training is offered each semester as well as one-on-one sessions as needed. During the training the attendees are reminded of the importance of accurately completing the overtime forms.

FIXED ASSETS

TAGGING AND RECORDING PROPERTY

Procedures regarding tagging and recording of property items were inadequate. Merchandise purchased with a procurement card is not always subject to the same inventory/tagging requirements as other purchases.

Fixed assets are tagged and recorded into the campus inventory system when received in shipping/receiving. In some instances a department receives items and it is their responsibility to notify shipping/receiving. We found that this does not always occur. Further, leased equipment was not consistently tagged and logged into the inventory system. We reviewed thirteen fixed assets and found that the items were not tagged and logged into the campus inventory system on five occasions.

SAM §8650 and §8651 require departments to record information when property is acquired and maintain records of all capitalized and non-capitalized property. When practicable, all state property will be tagged after acquisition.

The materials management lead indicated that not all leased equipment is tagged, and departments receiving goods directly do not always inform them of this occurrence.

When property is not tagged and entered on the property inventory, property records are understated and there is an increased potential that property will be lost or stolen.

Recommendation 14

We recommend that the campus strengthen procedures to ensure that all property acquisitions are tagged and entered on the campus inventory in a timely manner.

Campus Response

We concur. By June 30, 2001, the University will:

- a. add internal procedures to alert employees to report back to the Property Office any leased equipment that may become a CSU asset at a later date; and
- b. add a procedure to insure that property tags are placed on new equipment no later than 30 days following receipt of goods or notification by Procurement.

The University's Property Policy and Procedure clearly states departmental responsibilities for reporting non- Procurement type acquisitions requiring property tagging (ex. Pro-Card, Office Depot, customer pick-up).

PROPERTY SURVEY REPORTS

Property survey reports were not properly completed. This is a repeat from our prior FISMA audit.

We reviewed twenty disposed items and found that:

- ▶ the Public Safety office was not forwarding all reports of lost/stolen items to asset management for removal from the campus inventory system. There were nine incident reports that had not been forwarded to asset management between 1997 and April 2000. The value for these items totaled \$16,936;
- ▶ the date of management's approval for the disposition of assets under \$5,000 was not documented for ten disposed items;
- ▶ seven items over \$5,000 had been disposed of prior to the board's approval; and
- ▶ the reason for disposition was not documented for eight disposed items under \$5,000.

SAM §3520.5 indicates, in part, that:

- ▶ a properly executed property survey report must be completed when disposing of state-owned property;
- ▶ missing property is to be investigated by the department of Public Safety; and
- ▶ property survey reports should include a section for a certification of disposition.

The director of procurement contracts and materials management indicated that procedures were in place to pre-approve the disposition of assets, but that the dating of the approval documents had been inconsistent. Additionally, the lieutenant in Public Safety reported that procedures to notify materials management of lost/stolen items had been established and though reinforced with staff, had not been consistently applied.

Incomplete property survey reports reduce accountability over disposal of state property.

Recommendation 15

We recommend that the campus review and strengthen property survey procedures to ensure that:

- a. property to be disposed of is deleted from inventory in a timely manner and supported by pre-approval from property survey board; and
- b. procedures are strengthened to ensure that all lost and stolen property reports are forwarded to asset management so that items may be removed from the inventory listing.

Campus Response

- a. We concur. Further review of this finding indicates that the campus is in compliance.
- b. We concur. The Property Office has taken a proactive stance to assure timely reporting of lost and stolen assets. A come-up file has been established in the Microsoft Outlook calendar with automatic reminders for the Property Office to contact Public Safety every quarter. This new procedure will ascertain that Public Safety provides the Property Office with required crime reports in a timely manner.

Following this audit finding, an internal review revealed that all incidents during the period indicated, which involved recordable lost/stolen items, were properly reported and removed from the property records with one exception. Additionally, the investigation revealed that of the nine items noted in the finding, five were petty thefts or lost/stolen personal property that are outside the requirement for reporting to the Property manager. Documentation obtained from the Public Safety office confirms these findings.

FISCAL IT

The setup configuration for passwords in the system security software was inadequate.

We found that:

- ▶ password character lengths did not require an adequate minimum length;
- ▶ data access profiles are not locked out after a minimum number of failed attempts; and
- ▶ the system did not maintain an adequate number of password histories.

Current practices for password management require a minimum number of password characters and revoking user identifications after a predetermined number of failed password attempts (see Department of Defense Password Management Guideline aka Greenbook).

Control Objectives for Information Technology (COBIT) and Federal Information Processing Standards Publication 112 (FIPS112 and 190) also recommend that guidelines be established for an appropriate minimum password length and an appropriate and enforced frequency of password changes.

SAM §20003 and §4840 requires, in part, that there be a plan that limits access to State agency assets to authorized personnel who require these assets in the performance of their assigned duties.

Section 3.11.3 of the Generally Accepted Principles and Practices for Securing Information Technology Systems SP 800-14 by the National Institute of Standards and Technology (NIST) states that if passwords are used for authentication, organizations should secure passwords with such attributes as minimum character length.

The manager of data access security indicated that the configuration of the access security had not been periodically reviewed to ensure that it meets current practices.

Inadequate system security software could allow unauthorized users to guess passwords, thereby granting them access to campus systems and confidential data.

Recommendation 16

We recommend that the campus:

- a. improve the data security configuration on password requirements;
- b. reduce the number of password attempts before sign-on is revoked;
- c. periodically review the data access security policy and configurations; and
- d. maintain a history of passwords to prevent multiple use of the same password.

Campus Response

We concur. The campus has issued a memorandum dated May 3, 2000 to Richard Teal, Information Systems Audit Manager at the Chancellor's Office, outlining actions that have been taken to address the recommendation.

TRUST FUND ADMINISTRATION

Trust fund administration was in need of improvement.

Our review of trust fund operations noted deficiencies in the following areas:

- ▶ There was no process to ensure that expenditures were for authorized purposes. Currently this is the responsibility of the trust owner.
- ▶ Policies and procedures for campus trust administration were not documented.
- ▶ Written concurrence was not obtained from trust administrators for amendments to agreements.
- ▶ Trust ownership was defined by title and not individual. Therefore, any individual assuming the title also assumes the trust responsibility with no new agreement.
- ▶ Two of the eleven agreements reviewed were incomplete. The type of expenditure allowed field was not completed but the related statement of the trust purpose was extensive.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control include an established system of practices to be followed in performance of duties and functions in each of the state agencies.

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

The director of accounting stated that the account managers for trust organizations are responsible for making expenditures in accordance with trust agreement restrictions. The budget analyst stated that the account ownership changes were not a requirement for a new agreement and that in an attempt to correct agreements, a memo was used as an addendum to the agreements rather than obtaining new agreements and approvals.

When policies and procedures are not in writing, misunderstandings and improper transactions may occur. Inadequate administration over trust funds increases the risk that funds are not adequately documented, trust expenditures are not properly approved, and errors or irregularities are not detected.

Recommendation 17

We recommend that the campus:

- a. establish written policies and procedures for opening and operating trust accounts;
- b. implement adequate monitoring procedures for trust account activity (including expenditures and balances); and
- c. obtain adequate supporting documentation for all trust accounts.

Campus Response

We concur. By June 30, 2001, the University will:

- a. write draft policies and procedures for the operation and documentation of trust accounts; and
- b. make recommendation and set a training calendar for instructing account managers as to their responsibilities in the monitoring of trust account activity.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Alexander Gonzales	President
Barbara Acevedo	IT Consultant, Fiscal Operations
Christine Ballenger	Clinical Aide II, Student Health Services
Cecilia Boze	External Reporting Supervisor
Tanya Calienta	Cashier
Paula Cameron	Cashier
Jim Carr	Materials Management Lead
Carla Charlow	Accounts Payable Lead
Deborah Coronado	Associate Director, Human Resources
Debra Cruz-Hamilton	Business Mgr., Student Health Services
Barbara Dovenbarger	University Controller
Trisha Frady	Accounting Technician, Student Financial Services
Sue Gary	Payroll Technician
Kimberly Gomez	Accounting Technician, Accounts Receivable
Susanne Green	Assistant Vice President, Administrative Services
Ken Guerrero	Assistant Director of Student Financial Services
Patti Hale	Parking Officer
Linda Hawkins	Director of Procurement Contracts and Materials Management
Randy Helfond	General Accounting Supervisor
Richard Loucks	Director, Accounting Services
Teri Marquez	General Ledger
Julianna McDuffie	Procurement/Projects Systems Trainer
Alma McFarland	Cashier
Joanne Moran	Budgets Manager, Student and Residential Life Office
Charlene Montalvo	Customer Service, Fiscal Operations
Ron Neu	Supervisor, Procurement Support and Materials Management
Karen Nicholson	Director, Student Health Services
Norm Nicolson	Dean, Instructional and Information Technologies
Lynn Nuesbaum-Hanes	Coordinator, Student & Residential Life Office
Michele Ojeda	Supervisor, Accounts Receivable & Financial Aid Business Office
Robert Page	Senior IT Analyst, Fiscal Operations
Rich Parzonko	Budget Officer
Cindy Peters	Field Supervisor, Parking
Cathy Rank	Budget Analyst
Teresa Romero	Part-Time Cashier
Sandy Shepard	Administrative Assistant
Yasuko Shirakawa	Benefits and Training Assistant

Appendix A: (cont.)

Name

Title

Paul Tigalo

Cashiering Supervisor

Bart Westbrook

Warehouse Worker Materials Management

Robert Williams

Office Manager, Parking

Wayne Veres

Director, Systems Development and Software Engineering

Ernest Zomalt

Executive Vice President, Administrative Services and Fiscal Operations

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.



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Office of the President

MEMORANDUM

DATE: January 12, 2001

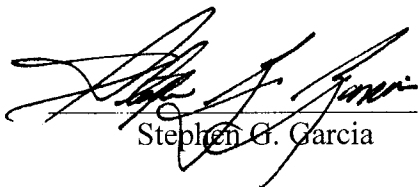
TO: Larry Mandel
University Auditor

FROM: Stephen G. Garcia
Vice President, Finance and Administrative Services

SUBJECT: **Campus Response to Recommendations of Audit Report
Number 00-04, FISMA at California State University San Marcos**

In accordance with the Policies and Procedures for the Office of the University Auditor, enclosed is the campus response to recommendations one through seventeen of the audit report dated November 14, 2000. A diskette with the electronic version of the response document is also enclosed. This response is respectfully submitted to the Chancellor for review and acceptance.

Please contact me should additional information be required.



Stephen G. Garcia

Enclosures

cc: Alexander Gonzalez, President
Suzanne Green, Associate Vice President, Finance and Administrative Services
Barbara Dovenbarger, University Controller
Richard Loucks, Director Accounting Services
Randy Helfond, Assistant Director Accounting Services

The California State University

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Fiscal Operations

Campus Response

Recommendation 1 – Satellite Cashiering

We recommend the campus review parking operation staffing responsibilities for appropriate segregation of duties and establish mitigating controls where incompatible duties are found.

Campus Response:

We concur. By June 30, 2001, the University will review parking operations to identify and correct issues regarding the segregation of duties.

Recommendation 2 – Uncleared Collections

We recommend that the campus strengthen procedures to ensure that uncleared collections are researched and resolved in a timely manner.

Campus Response:

We concur. The University has been in compliance with this recommendation since October, 2000.

Recommendation 3 – Fee Reconciliations

We recommend that the campus perform timely reconciliations of application and state university fees received each academic term.

Campus Response:

We concur. By January 31, 2001 the University will complete the reconciliation of application fees and state university fees for the Fall term ended December, 2000. By June 30, 2001, the University will complete the reconciliation of application fees and state university fees for the Spring term ended May, 2001.

Recommendation 4 – Accounts Receivable

We recommend that the campus strengthen accounts receivable procedures to address the issues noted in the audit.

Campus Response:

We concur. By August 31, 2001, the University will:

- a) Review and update procedures as necessary regarding the recording of monthly AR balances from non-registration related sources;*
- b) Review and update billing procedures as necessary to mitigate findings.*

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Page 2

Due the scope of the finding a significant process review will need to take place. By December 31, 2001, the University will:

- c) Undertake a systems review across multiple programs and non-integrated systems and make recommendation on a procedure to aggregate student balances in excess of \$1,000 before initiating the write-off process for individual debts.*

Recommendation 5 – Purchasing

We recommend that the campus seek advice from CSU Counsel on how to proceed in correcting inadequacies noted and consider the following actions:

- a) revising the Track and Soccer Field lease and operating arrangements and seek appropriate confirming approvals where necessary; and
- b) perform a final accounting of the special project fund associated with the construction and properly settle and close the account, including proper reimbursements of amounts owed for unreimbursed costs incurred by the campus.

Campus Response:

We concur. By June 30, 2001, the University will:

- a) revise the Track & Soccer Field lease and operating agreements as advised by CSU Counsel, and obtain appropriate confirming approvals where necessary; and*
- b) perform a final accounting of the special project fund associated with the Track & Soccer Field construction, including reimbursement to the campus for costs.*

Recommendation 6 – Revolving Fund Reconciliation

We recommend the campus:

- a) immediately begin completion of the revolving fund reconciliations including identification and clearing of large unreconciled amounts; and
- b) complete the revolving fund reconciliations timely with appropriate supporting documentation.

Campus Response (recommendation #6):

We concur. By February 28, 2001, the University will have identified and reclassified transactions miscoded to the revolving fund due to system error. And, by June 30, 2001 the University will produce timely revolving fund reconciliations.

Recommendation 7 – Petty Cash/Change Funds

We recommend the campus conduct timely cash counts of its petty cash funds.

Campus Response:

By June 30, 2001, the University will comply and notify Auxiliary organizations that petty cash funds controlled by University employees will be audited to the same SAM requirements as state petty cash funds. State petty cash funds are counted and balanced by two individuals at each request for reimbursement. Reimbursement of petty cash funds generally occurs more often than the monthly SAM requirement to count the fund.

Confidential

Page 3

Additional counts have been initiated and the campus has been in compliance since February, 2000.

Recommendation 8 – Travel Advances

We recommend that the campus strengthen controls to ensure:

- a) outstanding travel advances are resolved in accordance with SAM;
- b) an appropriate aging for travel advances is maintained and travel advances are added to the revolving fund reconciliation for such advances; and
- c) reimbursed travel claims are claim scheduled and cleared timely.

Campus Response:

We concur. By June 30, 2001, the University will:

- a) *clear travel advances where the travel did not occur due to normal business occurrences such as illness, or conflict in schedule; and*
- b) *issue a reminder to the campus business managers that travel advances be cleared in a timely manner.*

Additionally, the scope of the recommendation dictates that a significant systems analysis effort be undertaken to design and implement an aged travel report. By October 31, 2001, the University will develop a methodology to age travel advances.

Recommendation 9 – Salary Advances

We recommend that the campus:

- a) perform salary advance follow-ups no less than every sixty-days with retention of appropriate documentation; and
- b) perform a timely review of the salary advance aging to general ledger activity to ensure timely clearing of salary advances.

Campus Response (recommendation #9):

We concur. By June 30, 2001, the University will:

- a) *strengthen controls to existing collection procedures by following up on and clearing outstanding salary advances every sixty-days; and*
- b) *place adequate documentation in files at the time the advance is issued.*

Recommendation 10 – Blank Check Stock

We recommend that the campus ensure that blank check stock is provided adequate protection.

Campus response:

We concur. Emergency blank check stock previously protected by the office safe has now been placed inside a lock-box, inside the office safe. Office staff with safe access do not have access to the lock-box, and the employee with access to the lock-box does not have access to the office safe. This new setup was adopted upon the recommendation of the FISMA auditor.

The California State University

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Page 4

Recommendation 11 – Bank Reconciliations

We recommend the campus strengthen procedures to ensure that bank reconciliations are completed timely.

Campus Response:

We concur. The University hired a temporary Accountant I in August, 2000 to focus on bank reconciliations. The University is currently in compliance and will continue to place a priority on completing timely bank reconciliations.

Recommendation 12 – Vendor Data Records

We recommend that the campus complete the resident/non-resident section of the Vendor Data Record (Form 204) for all non-government entities.

Campus Response:

We concur. By February 28, 2001, the University AP and Procurement employees will not accept incomplete Vendor Data Records and will return such documents to the vendor for completion. Vendors with incomplete Vendor Data Records will be given the same non-payment status as not having returned the form.

Recommendation 13 – Payroll/Personnel

We recommend that the campus review and strengthen overtime pre-authorization controls.

Campus Response:

We concur. By June 30, 2001, HR&EO will conduct an audit of current overtime forms and any incomplete documents will be returned to the originator.

The campus provides continuous campuswide training to attendance clerks on overtime and attendance procedures. This training is offered each semester as well as one-on-one sessions as needed. During the training the attendees are reminded of the importance of accurately completing the overtime forms.

Recommendation 14 – Tagging and Recording of Property

We recommend that the campus strengthen procedures to ensure that all property acquisitions are tagged and entered on the campus inventory in a timely manner.

Campus Response:

We concur. By June 30, 2001, the University will:

- a) Add internal procedures to alert employees to report back to the Property Office any leased equipment that may become a CSU asset at a later date.*
- b) Add a procedure to insure that property tags are placed on new equipment no later than 30 days following receipt of goods or notification by Procurement.*

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Page 5

The University's Property Policy and Procedure clearly states departmental responsibilities for reporting non- Procurement type acquisitions requiring property tagging. (ex. Pro-Card, Office Depot, customer pick-up).

Recommendation 15 – Property Survey Reports

We recommend that the campus review and strengthen property survey procedures to ensure that:

- a) property to be disposed of is deleted from inventory in a timely manner and supported by pre-approval from property survey board; and
- b) procedures are strengthened to ensure that all lost and stolen property reports are forwarded to asset management so that items may be removed from the inventory listing.

Campus Response:

- a) *We concur. Further review of this finding indicates that the campus is in compliance.*
- b) *We concur. The Property Office has taken a proactive stance to assure timely reporting of lost and stolen assets. A come-up file has been established in the Microsoft Outlook calendar with automatic reminders for the Property Office to contact Public Safety every quarter. This new procedure will ascertain that Public Safety provides the Property Office with required crime reports in a timely manner.*

Following this audit finding, an internal review revealed that all incidents during the period indicated, which involved recordable lost/stolen items, were properly reported and removed from the property records with one exception. Additionally, the investigation revealed that of the nine items noted in the finding, five were petty thefts or lost/stolen personal property that are outside the requirement for reporting to the Property manager. Documentation obtained from the Public Safety office confirms these findings.

Recommendation 16 – FISCAL IT

We recommend that the campus:

- a) improve the data security configuration on password requirements;
- b) reduce the number of password attempts before sign-on is revoked;
- c) periodically review the data access security policy and configuration; and
- d) maintain a history of passwords to prevent multiple use of the same password.

Campus Response:

We concur. The campus has issued a memorandum date May 3, 2000 to Richard Teal, Information Systems Audit Manager at the Chancellor's Office outlining actions that have been taken to address the recommendation.

Confidential

Page 6

Recommendation 17 – Trust Funds

We recommend that the campus:

- a) establish written policies and procedures for opening and operating trust accounts;
- b) implement adequate monitoring procedures for trust account activity (including expenditures and balances); and
- c) obtain adequate supporting documentation for all trust accounts.

Campus Response:

We concur. By June 30, 2001, the University will:

- a) Write draft policies and procedures for the operation and documentation of Trust accounts; and*
- b) Make recommendation and set a training calendar for instructing Account Managers as to their responsibilities in the monitoring of Trust account activity.*

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

February 21, 2001

CHICO

MEMORANDUM

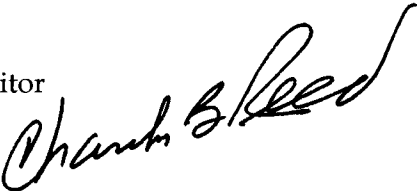
DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed 
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report Number 00-04 on FISMA,
California State University, San Marcos

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 20, 2000, I accept the response as submitted with the draft final report on FISMA, California State University, San Marcos.

MONTFREY BAY

NORTHRIDGE

POMONA

CBR/nk

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Alexander Gonzalez, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS