

**FISMA**

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

**Report Number 00-05  
July 14, 2000**

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## **ABBREVIATIONS**

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
FY	Fiscal Year
IRS	Internal Revenue Service
IS	Information Systems
SCO	State Controller's Office
SUAM	State University Administrative Manual

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## INTRODUCTION

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### PURPOSE

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

- ▶ cash receipts are processed in accordance with laws, regulations and management policies;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management policies;
- ▶ revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies;
- ▶ cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists;
- ▶ payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled and access to personnel and payroll records and processing areas are restricted;
- ▶ purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records;
- ▶ 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 1998-99 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 March 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 over the establishment of billing for 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 and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

## **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.

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## **OPINION**

We visited the California Polytechnic State University, San Luis Obispo from March 20, 2000 through April 7, 2000 and made a study and evaluation of the accounting and administrative control in effect as of April 7, 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.

California Polytechnic State University, San Luis Obispo's 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; and
- ▶ financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5 and Trustee policy.

Our study and evaluation disclosed certain conditions which, 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 and disbursements, accounts receivable, purchasing, and revolving funds. These conditions, along with other weaknesses, are described in the Executive Summary below and in the body of the report.

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## INTRODUCTION

In our opinion, except for the effect of the weaknesses described above, the California Polytechnic State University, San Luis Obispo's accounting and administrative control in effect as of April 7, 2000, taken as a whole, was sufficient to meet the objectives stated above.

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

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## 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]

#### ACCESS TO SAFES AND VAULTS [7]

A written record of individuals with access to the safe and the date of the last combination change was not kept at the public safety department and athletics ticket office. The issue regarding access to the safe in the athletics ticket office is a repeat finding from our prior FISMA audit. Security/internal control over cash is increased by the use of appropriate documentation and restriction of access to safes and vaults.

### ACCOUNTS RECEIVABLE [8]

#### VENDOR/SPONSORS RECEIVABLES [8]

Documentation of aged receivables for external vendors and sponsors was inadequate. Maintaining records of the collection efforts for vendors/sponsors and establishing effective procedures to manage and follow up on receivables increases the likelihood that all amounts owed will be collected.

## **PURCHASING [9]**

### **DELEGATION OF AUTHORITY [9]**

Contracts and purchase orders were authorized by contract and procurement services officers in excess of their signature authority. Enforcing approval levels of purchasing authority decreases the risk of unauthorized purchases.

### **PROCUREMENT CARDS [10]**

Credit card slips were signed by individuals other than the cardholders. Adequate purchasing controls decrease the risk of unauthorized purchases.

## **REVOLVING FUND [11]**

### **CHANGE FUNDS [11]**

Three (facility services \$350, athletics \$2500, and public safety event parking \$600) of the sixty-six campus change/petty cash funds were not counted in accordance with the required frequency. Internal controls over cash funds are improved when independent cash counts are conducted timely.

## **CASH DISBURSEMENTS [12]**

### **VENDOR DATA RECORDS [12]**

The campus did not consistently maintain a vendor data record on file for non-governmental vendors. Maintaining vendor data records decreases the likelihood that penalties, fines, and interest will be assessed by the IRS or the State Franchise Tax Board.

## **FISCAL INFORMATION TECHNOLOGY [13]**

### **DATA SECURITY CONFIGURATION [13]**

Data access security needs to be improved. User passwords did not require a minimum acceptable number of characters. Adequate configurations of system security software could prevent unauthorized users from gaining access to campus systems and confidential data.

## **DISASTER RECOVERY [14]**

The campus draft disaster recovery plan had not been completed. A current disaster recovery plan will enable the campus to ensure continuity of computing operations for support of critical applications, maximize the use of remaining resources, and achieve an orderly migration toward the resumption of all computing services.

## **TRUST FUNDS [14]**

Campus trust agreements did not document restrictions on the use of moneys for administrative or overhead costs. The campus can effectively execute its fiduciary responsibilities by adequately documenting and maintaining a complete record of trust agreements.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

#### **ACCESS TO SAFES AND VAULTS**

A written record of individuals with access to the safe and the date of the last combination change was not kept at the public safety department (main office and information booth) and the athletics ticket office. This is a repeat finding from prior FISMA audit.

SAM §8024 requires that a record be kept showing date the combination was last changed and names of persons knowing the present combination.

The public safety services business coordinator stated that he was not aware of this SAM requirement.

The ticket manager of the athletics department stated that management oversight resulted in failure to correct this issue.

The safeguarding of assets is compromised when the safe combination is known by employees who leave the employ of the campus and/or by employees who no longer have a need to know the safe combination to perform their duties.

#### **Recommendation 1**

We recommend that the campus strengthen cash control procedures to ensure that a current written record is maintained of individuals who have access to the safekeeping facilities and the dates the combinations were last changed.

#### **Campus Response**

We concur. University Police (formerly Public Safety Services) is in the process of updating their procedures to include a written record of individuals with access to the safes at the main office and the Information Booth, as well as the date of the last combination change.

The Athletics Ticket Office is also in the process of updating their listing of individuals with access to the safe, as well as the date of the last combination change.

A procedure to verify compliance with these updated procedures will be implemented by Accounts and Payment Management. Implementation Date: September 30, 2000

## ACCOUNTS RECEIVABLE

### VENDOR/SPONSORS RECEIVABLES

Documentation of aged receivables for external vendors and sponsors was inadequate.

Collection efforts and documentation could not be located for seven of seventeen vendor and sponsor accounts reviewed.

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

Campus collection procedures for vendors indicate that in order to pursue collections, debtors are to be contacted by telephone or letter.

Campus collection procedures for sponsors indicate that statements, along with a copy of the original billing stamped second or third notice as applicable, are sent to vendors with unpaid balances. Telephone calls are made if accounts are in arrears.

The assistant director for accounts and payment management indicated that there was a need to review documentation of collection efforts and that, due to recent staff turnover, this review process was delayed.

Failure to properly manage receivables reduces the likelihood that all amounts owed will be collected.

### **Recommendation 2**

We recommend that the campus establish and implement procedures to:

- a. document written and verbal collection efforts; and
- b. use a sequence of collections letters that reference prior letters.

### **Campus Response**

We concur.

We are in the process of recruiting an accounts receivable technician whose duties will include follow-up and documentation of collection efforts for vendor receivables. This position will also be responsible for revising the written procedures for vendor receivables to include follow-up letters along with the telephone calls currently used. Implementation Date: December 31, 2000

The process for billing and aging sponsor receivables has been reviewed and the written procedures are currently being revised to include a clear explanation of how these accounts are to be aged. The procedures will also explain the process for collection on any sponsor receivables that are denied by the sponsor and convert to a student receivable. By their nature, sponsor receivables do not have a history of non-collection and our campus procedures will be revised to appropriately reflect what process to follow if there is a non-payment situation, including documentation of collection efforts. Implementation Date: September 30, 2000

## **PURCHASING**

### **DELEGATION OF AUTHORITY**

Contracts and purchase orders were authorized by contract and procurement services officers in excess of their signature authority.

We found that:

- ▶ A special repair contract, with a value of \$680,000, was signed by the director of support services without the review of general counsel.
- ▶ A purchase order, with a value of \$205,000, was approved by a buyer whose delegated purchase authority for commodities and services was \$50,000.

SUAM §9700.02 states that authority is delegated to each President to execute and implement the following contracts on behalf of the Board of Trustees of the California State University under the provisions of the California State University Contract law and subject to the conditions stated in Executive Order No. 668.

Agreements, contracts, or other documents necessary to carry through any approved state or nonstate funded public works project, special repair projects, or facility equipment (built-in) installations, must be submitted to the Office of the Chancellor (General Counsel) for review and approval if the estimated cost exceeds \$250,000.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SUAM §9701.02 states that contracts for special repair projects estimated to cost \$250,000 or more require General Counsel approval.

Executive Order 615 delegated the procurement authority granted to the CSU to the campus president. This authority may be further delegated by the president to campus designees subject to the same conditions.

The director of contract and procurement services stated that most of the special repair contracts are less than \$250,000, and a management oversight resulted in failure to comply with the SUAM requirement for special repair contracts. He added that management oversight resulted in the buyer exceeding his authority limits.

Failure to enforce approved levels of purchasing authority increases the risk of unauthorized purchases.

### **Recommendation 3**

We recommend that the campus adhere to its procedures and ensure that contract and procurement services officers do not exceed their individual delegations.

### **Campus Response**

We concur. The staff of Contract and Procurement Services have been advised, via a staff training session, of the correct procedure for signature authority above their delegation levels. Implementation Date: November 1, 2000

## **PROCUREMENT CARDS**

Credit card slips were signed by individuals other than the cardholders.

The California Polytechnic State University Procurement Credit Card Visa Handbook states that only the named authorized user shall use the card.

The director, contract and procurement services indicated that this occurs when the cardholder places an order and another person picks up or receives the merchandise.

Failure to maintain adequate purchasing controls increases the risk of unauthorized purchases.

### **Recommendation 4**

We recommend that the campus adhere to its procedures and ensure that procurement credit cards are used by the named authorized user only.

**Campus Response**

We concur with the finding. In the future we will amend our credit card handbook to allow for the “signing” of the receipt by individuals requested to do so by the cardholder. In that way the cardholder will authorize the purchase with the vendor as in a phone order, and another department personnel can sign for the pick up of the item at the vendor’s location. That way the person performing the receiving of the goods acknowledges receipt while the cardholder authorized to purchase and the payment after receipt of the goods. Implementation Date: July 1, 2000

**REVOLVING FUND**

**CHANGE FUNDS**

Three (facility services \$350, athletics \$2500, and public safety event parking \$600) of the sixty-six campus change/petty cash funds were not counted in accordance with the required frequency.

SAM §8111.2 states, in part, that an employee other than the custodian of the change or petty cash fund will count it in accordance with the following schedule and report the count to the accounting officer.

<u>Size of Fund</u>	<u>Frequency of Count</u>
\$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 assistant director for accounts and payment management indicated that she has been corresponding with the referenced locations throughout the last year and a half, weighed the benefit versus the cost and available staffing resources, and concluded that controls over the cash and change funds were reasonable in light of available resources. She also indicated that daily deposits were made for these funds; therefore, they would have been counted daily.

Internal controls over cash funds are compromised when independent cash counts are not conducted timely.

**Recommendation 5**

We recommend that the campus establish procedures to conduct cash counts in accordance with the schedule prescribed in SAM §8111.2.

### **Campus Response**

We concur. We have communicated to the custodians of the campus change/petty cash funds the required frequency of cash counts under SAM 8111.2. We will apply controls over cash funds that include cash counts by someone other than the custodians and will put in place a process to monitor the frequency of cash counts. This process includes revision of procedures to include consistent logging of cash count forms and follow-up with custodians for any cash counts not received in a timely manner based on SAM 8111.2. Implementation Date: September 30, 2000

## **CASH DISBURSEMENTS**

### **VENDOR DATA RECORDS**

The campus did not consistently maintain a vendor data record on file for non-governmental vendors.

Of 20 vendors reviewed, form 204 could not be located for four vendors, and three had not filled out this form completely.

SAM §8422.19 requires that a copy of the completed STD. 204, for payments to all non-governmental entities, be kept on file at each state agency. It adds that the information provided by the vendor will include the complete business name and address of the vendor doing business with the State and the name, title, telephone number, and dated signature of the vendor's authorized representative. This signature certifies the accuracy of the information provided.

The assistant director for accounts and payment management stated that the on-line system indicates that forms 204 were received but must have been misfiled. The assistant director for accounts and payment management further stated that the incomplete forms 204 were due to management oversight.

The IRS Code indicates that a state agency that fails to obtain the Taxpayer 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. Additional penalties, fines, and interest may be assessed by the IRS or the State Franchise Tax Board.

### **Recommendation 6**

We recommend that the campus obtain and retain Vendor Data Records (form 204) on file for all non-governmental entities and ensure that these records are completed properly by the vendors.

### **Campus Response**

We concur. Through the use of a focus program with specific search criteria, our vendor file has been reviewed and we have identified those vendors for whom a Vendor Data Record flag was not finalized. Accounts Payable staff are conducting a follow-up with all current vendors for whom a completed form has not been logged into the system. AP staff will continue to review forms as they are received to ensure that they are properly completed. Implementation Date: September 30, 2000

## **FISCAL INFORMATION TECHNOLOGY**

### **DATA SECURITY CONFIGURATION**

Data access security needs to be improved.

User passwords were not required to be of a minimum acceptable length.

Current practices for password management require a minimum number of password characters and revocation of user identification after a predetermined number of failed password attempts (see Department of Defense Password Management Guideline aka Greenbook). Additionally, Control Objectives for Information Technology (COBIT) and Federal Information Processing Standards Publication 112 (FIPS112 and 190) also recommends that guidelines be established for an appropriate minimum password length and an appropriate and enforced frequency of password changes. Furthermore, SAM §20003 and 4840 require, 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. Finally, 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 lengths.

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

Inadequate configurations of system security software could allow unauthorized users to gain access to campus systems and confidential data.

### **Recommendation 7**

We recommend that the campus:

- a. increase the password character requirement to a minimum acceptable length; and
- b. periodically review the data access security policy and configurations.

### **Campus Response**

We concur. Users will be notified via the mainframe sign-on screens that minimum password lengths will change from 5 to 6 characters. The change will be effective October 1 and completed by January 1, 2001. Users are required to change passwords every 90 days and will have to use the 6 character minimum on their new password. Implementation Date: October 1, 2000

### **DISASTER RECOVERY**

The campus draft disaster recovery plan had not been completed.

Effective risk management requires updates in a disaster recovery plan. SAM §4843 states that identification and evaluation of alternative recovery strategies should be completed and an agency must maintain an operational recovery plan. The plan must be adjusted to changing circumstances such as equipment.

The director of communications and computing services focused the department's priorities on preparing for Y2K and acknowledged that a disaster recovery plan should be completed.

The absence of a current disaster recovery plan may inhibit the campus from: ensuring continuity of computing operations for support of critical applications, maximizing the use of remaining resources, and achieving an orderly migration toward the resumption of all computing services.

### **Recommendation 8**

We recommend that the campus complete a draft disaster recovery plan that includes information on processing at a remote site in the event of a disaster and performance of a walk-through of the plan.

### **Campus Response**

We concur. The risk analysis portion of the Disaster Recovery Plan has been completed and the detailed plan, which includes information on remote site processing and a walk-through, is to be completed by November 1. Implementation Date: November 1, 2000

## **TRUST FUNDS**

Campus trust agreements did not contain all required documentation.

Two of the ten trust agreements reviewed did not document the restrictions on the use of moneys for administrative or overhead costs.

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OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

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

The assistant director for accounts and payment management indicated that the department was in the process of updating the trust agreements and acquiring all required information.

The campus cannot effectively execute its fiduciary responsibilities without adequately documenting and maintaining a complete record of trust agreements.

**Recommendation 9**

We recommend that the campus strengthen procedures to ensure that trust fund agreements are properly supported.

**Campus Response**

We concur. We are continuing our project to update all trust agreements. This update includes reviewing all of the trust account documents to ensure that the section indicating whether or not administrative or overhead charges are to be made to this account are appropriately completed, or that the written policy for overhead charges on trust accounts clearly states the treatment for certain groups of trust accounts. Implementation Date: December 30, 2000

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Warren Baker	President
Tony Aeilts	Chief of Police, University Police Department
Sharon L. Andresen	Circulation Supervisor, Circulation – Robert E. Kennedy Library
Mike Bernard	Information Technology Services
Harvey Blatter	Accountant, Fiscal Services
Laurie Borello	Assistant Director, Accounting/Data Processing
Robbin Bridges	Accounting Technician
Matthew J. Ceppi	Business Services Coordinator, Parking and Commuter Services
Carol Clifford	Assistant Director, Payroll
Scott Cooke	Assistant Director, Fiscal Services
Jan Defreitas	Accounting Technician II, Accounts Payable
Robert Dignan	Director, Fiscal Services
Laura Dimmitt	Assistant Director, Scholarships/Special Programs
Jan Grieb	Manager, Student Accounts
Jeff Helms	Accounting Technician II, Accounts Payable
Judy Holloway	Accounting Technician III, Student Accounts
Michael A. Johnson	Buyer, Contract and Procurement Services
Carol Johnston	Accounts Payable Manager, Fiscal Services Department
Betty Kroeze	Head of Support Services, Health Services, Student Affairs Division
Frank Lebens	Vice President, Administration and Finance
Lorlie Leetham	Assistant Director, Accounts and Payment Management
Dario Luis	Accountant, Extended University Programs & Services
Johanna Madjedi	Director, Communications and Computing Services
Rachel Mendoza	Accounting Technician
Fred Mills	Communications & Records Supervisor Public Safety Services
Rory J. O'Donnell	Buyer, Contract & Procurement Services
Joan Regulski	Accounting Technician III
Matthew Roberts	Director, Contract & Procurement Services
Giglia Sherman	Administrative Support Coordinator II
Janice Stone	Library Assistant III, Interlibrary Loan Supervisor
Patricia-Ann Stoneman	Director, Extended University Programs & Services
Vicki Stover	Associate Vice President, Administration
Fred Strasser	Supervising Property Clerk
John Sullivan	Accounting Technician, Travel Coordinator
Brenda L. Tesch	Buyer, Contract and Procurement Services
Velma Tiberti	Accounting Technician II, Accounts Payable
Pat Tschohl	Accounting Technician
Richard Walls	Coordinator, Central Systems Administration
Lee Whitmer	Supervising Cashier
Rita Zamora	Accounting Technician II, Accounts Payable

## **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.

# CAL POLY

California Polytechnic State University  
San Luis Obispo, CA 93407  
Administration & Finance Division  
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RECEIVED  
University Auditor

AUG 22 2000

The California State  
University

August 17, 2000

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

Subject: Campus Response to Recommendations of Audit Report Number 00-05, *FISMA*  
at California Polytechnic State University, San Luis Obispo

Dear Mr. Mandel:

As requested in your letter of July 17, attached are the campus responses to recommendations of Audit Report Number 00-05, *FISMA*. If you have questions regarding this document, please contact Vicki Stover, Associate Vice President for Administration, at 805-756-2171 or [VStover@calpoly.edu](mailto:VStover@calpoly.edu).

Sincerely,



Frank Lebens  
Vice President for Administration & Finance

cc: W. Baker  
J. Hanley  
J. Madjedi  
R. Ramirez  
B. Dignan  
M. Roberts  
V. Stover

**FISMA**  
**Campus Response to Audit Report Number 00-05**

**CASH RECEIPTS**

**ACCESS TO SAFES AND VAULTS**

**Recommendation 1**

We recommend that the campus strengthen cash control procedures to ensure that a current written record is maintained of individuals who have access to the safekeeping facilities and the dates the combinations were last changed.

**Campus Response**

We concur. University Police (formerly Public Safety Services) is in the process of updating their procedures to include a written record of individuals with access to the safes at the main office and the Information Booth, as well as the date of the last combination change.

The Athletics Ticket Office is also in the process of updating their listing of individuals with access to the safe, as well as the date of the last combination change.

A procedure to verify compliance with these updated procedures will be implemented by Accounts and Payment Management.

**Implementation Date:** September 30, 2000

**ACCOUNTS RECEIVABLE**

**VENDOR/SPONSORS RECEIVABLES**

**Recommendation 2**

We recommend that the campus establish and implement procedures to:

- a. document written and verbal collection efforts; and
- b. use a sequence of collection letters that reference prior letters.

**Campus Response**

We concur.

We are in the process of recruiting an accounts receivable technician whose duties will include follow-up and documentation of collection efforts for vendor receivables. This position will also be responsible for revising the written procedures for vendor receivables to include follow-up letters along with the telephone calls currently used.

**Implementation Date:** December 31, 2000

The process for billing and aging sponsor receivables has been reviewed and the written procedures are currently being revised to include a clear explanation of how these accounts are to be aged. The procedures will also explain the process for collection on any sponsor receivables that are denied by the sponsor and convert to a student receivable. By their nature, sponsor receivables do not have a history of non-collection and our campus procedures will be revised to appropriately reflect what process to follow if there is a non-payment situation, including documentation of collection efforts.

**Implementation Date:** September 30, 2000

## **PURCHASING**

### **DELEGATION OF AUTHORITY**

#### **Recommendation 3**

We recommend that the campus adhere to its procedures and ensure that contract and procurement services officers do not exceed their individual delegations.

#### **Campus Response**

We concur. The staff of Contract and Procurement Services have been advised, via a staff training session, of the correct procedure for signature authority above their delegation levels.

**Implementation Date:** November 1, 2000

## **PROCUREMENT CARDS**

### **Recommendation 4**

We recommend that the campus adhere to its procedures and ensure that procurement credit cards are used by the named authorized user only.

### **Campus Response**

We concur with the finding. In the future we will amend our credit card handbook to allow for the "signing" of the receipt by individuals requested to do so by the cardholder. In that way the cardholder will authorize the purchase with the vendor as in a phone order, and another department personnel can sign for the pick up of the item at the vendor's location. That way the person performing the receiving of the goods acknowledges receipt while the cardholder authorized to purchase and the payment after receipt of the goods.

**Implementation Date:** July 1, 2000

## **REVOLVING FUND**

### **CHANGE FUNDS**

### **Recommendation 5**

We recommend that the campus establish procedures to conduct cash counts in accordance with the schedule prescribed in SAM 8111.2.

### **Campus Response**

We concur. We have communicated to the custodians of the campus change/petty cash funds the required frequency of cash counts under SAM 8111.2. We will apply controls over cash funds that include cash counts by someone other than the custodians and will put in place a process to monitor the frequency of cash counts. This process includes revision of procedures to include consistent logging of cash count forms and follow-up with custodians for any cash counts not received in a timely manner based on SAM 8111.2.

**Implementation Date:** September 30, 2000

## CASH DISBURSEMENTS

### VENDOR DATA RECORDS

#### Recommendation 6

We recommend that the campus obtain and retain Vendor Data records (form 204) on file for all non-governmental entities and ensure that these records are completed properly by the vendors.

#### Campus Response

We concur. Through the use of a focus program with specific search criteria, our vendor file has been reviewed and we have identified those vendors for whom a Vendor Data Record flag was not finalized. Accounts Payable staff are conducting a follow-up with all current vendors for whom a completed form has not been logged into the system. AP staff will continue to review forms as they are received to ensure that they are properly completed.

**Implementation Date:** September 30, 2000

## FISCAL INFORMATION TECHNOLOGY

### DATA SECURITY CONFIGURATION

#### Recommendation 7

We recommend that the campus:

- a. increase the password character requirement to a minimum acceptable length; and
- b. periodically review the data access security policy and configurations.

#### Campus Response

We concur. Users will be notified via the mainframe sign-on screens that minimum password lengths will change from 5 to 6 characters. The change will be effective October 1 and completed by January 1, 2001. Users are required to change passwords every 90 days and will have to use the 6 character minimum on their new password.

**Implementation Date:** October 1, 2000

## **DISASTER RECOVERY**

### **Recommendation 8**

We recommend that the campus complete a draft disaster recovery plan that includes information on processing at a remote site in the event of a disaster and performance of a walk-through of the plan.

### **Campus Response**

We concur. The risk analysis portion of the Disaster Recovery Plan has been completed and the detailed plan, which includes information on remote site processing and a walk-through, is to be completed by November 1.

**Implementation Date:** November 1, 2000

## **TRUST FUNDS**

### **Recommendation 9**

We recommend that the campus strengthen procedures to ensure that trust fund agreements are properly supported.

### **Campus Response**

We concur. We are continuing our project to update all trust agreements. This update includes reviewing all of the trust account documents to ensure that the section indicating whether or not administrative or overhead charges are to be made to this account are appropriately completed, or that the written policy for overhead charges on trust accounts clearly states the treatment for certain groups of trust accounts.

**Implementation Date:** December 30, 2000

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

August 23, 2000

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel  
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed 

HUMBOLDT

SUBJECT: Draft Final Report Number 00-05 on *FISMA*,  
California Polytechnic State University, San Luis Obispo

LONG BEACH

LOS ANGELES

In response to your memorandum of August 23, 2000, I accept the response as submitted with the draft final report on FISMA, California Polytechnic State University, San Luis Obispo.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/cw

POMONA

Enclosure

SACRAMENTO

SAN BERNARDINO

cc: Dr. Warren J. Baker, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS