

**FISMA**  
**CALIFORNIA STATE POLYTECHNIC**  
**UNIVERSITY, POMONA**

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## **ABBREVIATIONS**

CSU	California State University
IT	Information Technology
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
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.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

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### 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 1999-2000 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 2000-01 year-to-date. 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.

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## INTRODUCTION

- ▶ 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.
- ▶ 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.

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## 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 California State University (CSU) is currently responsible for conducting such audits within the CSU. This report represents our biennial review.

## OPINION

We visited the California State Polytechnic University, Pomona from November 7, 2000, through January 16, 2001, and made a study and evaluation of the accounting and administrative control in effect as of January 16, 2001. Our study and evaluation were conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*, issued by The Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

Cal Poly Pomona's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code §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 study and evaluation revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate control over the following areas: cash receipts, cash disbursements, and fiscal information technology.

These conditions, along with other weaknesses, are described in the executive summary and in the body of the report.

In our opinion, except for the effect of the weaknesses described above, Cal Poly Pomona's accounting and administrative control in effect as of January 16, 2001, 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.

## **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]**

#### **PASSWORD CONFIDENTIALITY [7]**

Accountability for cashiering transactions was not localized, as the vault cashier had a record of all cashiers' passwords. Accountability of cashier transactions decreases the risk that misappropriation of funds will not be detected.

#### **SATELLITE CASHIERING [8]**

Cash control weaknesses were found at two of the three satellite cashiering areas visited. The potential for cash deposit loss or theft decreases during the period in which cash is adequately secured.

#### **APPLICATION FEE RECONCILIATIONS [9]**

The campus did not complete application fee reconciliations for each academic year term. Timely reconciliation of fees may prevent errors and enable the misappropriation of funds to be detected.

### **ACCOUNTS RECEIVABLE [10]**

Documentation of collection efforts and procedures for student accounts and external receivables were inadequate. Prompt collection of receivables has a positive impact on cash flow and increases the likelihood of collection.

### **PURCHASING [11]**

Procurement card transaction receipts were inappropriately signed by employees other than the cardholder. Adequate procedures related to the approval of purchases decrease the risk of inappropriate expenditures.

## **CASH DISBURSEMENTS [12]**

### **SEGREGATION OF DUTIES [12]**

Accounting office employees were performing duties that were incompatible with good internal control. Exposure to risk of improper acts decreases significantly when employees do not perform incompatible disbursement duties.

### **LONG-OUTSTANDING CHECKS/DEPOSITS IN TRANSIT [14]**

Checks that were outstanding for a period in excess of one year and deposits in transit were not remitted timely. Canceling or remitting long-outstanding checks could ease the reconciliation effort, and promptly researching and clearing deposits in transit decreases the risk of inappropriate acts and misuse of state money.

## **FISCAL IT [16]**

### **USER ACCOUNT DELETION [16]**

Security administration over account revocation required improvement. Adequate user account deletion could prevent unauthorized personnel from having access to sensitive data.

### **OPEN NETWORK [16]**

Not all campus ports required server authentication. Controlling open network ports decreases the risk of and exposure to hack attempts, nontraceable events, and user misconduct.

### **PHYSICAL ACCESS [19]**

Physical access controls to the computer room were inadequate. Adequate data security reduces the risk of unauthorized access to systems and confidential data.

### **DISASTER RECOVERY/BUSINESS CONTINUITY PLAN [21]**

The campus did not have an information technology (IT) disaster recovery plan, and they have not developed a business continuity plan to ensure that business operations would continue with minimal disruption and could be restored in a reasonable time frame in the event of a disaster. Comprehensive disaster recovery and business continuity plans increase the likelihood that the campus can ensure continuity of computing operations for support of critical applications.

## **DATA BACKUP PROCEDURE [22]**

Data backup and recovery procedures were not adequate. Adequate backup procedures decrease the risk that the campus could lose critical data that could affect operating capacity and efficiency.

## **TRUST FUNDS [22]**

### **DOCUMENTATION [22]**

Campus trust agreements did not contain all of the required documentation. Adequately documented trust agreements decrease the risk of inappropriate or untimely disposition of funds.

### **EXPENDITURES [23]**

Control over trust fund expenditures required improvement. Ensuring that expenditures are only approved by those individuals designated in the trust fund document or signature authorization form decreases the risk of inappropriate expenditures. Appropriate source of trust funds decreases risk exposure for misappropriation of funds through trust accounts.

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

### **CASH RECEIPTS**

#### **PASSWORD CONFIDENTIALITY**

Accountability for cashiering transactions was not localized, as the vault cashier had a record of all cashiers' passwords.

State Administrative Manual (SAM) §20050 indicates 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 manager, student accounts and cashiers services, stated that currently holds are set up such that only the cashier placing the hold on a student record can remove it. If the cashier who placed the hold is not available, a student's registration could be delayed.

Inadequate accountability of cashier transactions increases the risk that misappropriation of funds will not be detected.

#### **Recommendation 1**

We recommend that the campus review system capabilities and establish procedures to ensure password confidentiality.

#### **Campus Response**

We concur with the recommendation. The system at student accounts and cashiers services has been changed so that holds on student accounts can be removed by another authorized cashier. With this change, there is no longer a need to share passwords to remove holds when the cashier who placed it is not available. All staff members now have new confidential passwords and accountability for their transactions are directly traceable.

*Timeline: Completed June 12, 2001*

## **SATELLITE CASHIERING**

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

### Student Health Services

- ▶ The pharmacy door was not adequately secured. A piece of cardboard was taped over the door lock such that locking of the door upon entry or exit did not occur.
- ▶ The daily deposit was maintained in an unlocked drawer in the pharmacy although a safe was in the pharmacy.

The director, student health services, stated that this was mentioned to the pharmacists. If the pharmacists are not present, the cardboard over the door lock is not used. The pharmacy is locked when one pharmacist is present and after hours. He also stated that the pharmacy has not had a change in staff since 1988 or 1989 and that the safe had not been used for several years.

### Parking

- ▶ A written record was not being maintained of persons knowing the combination to the safe and the date the combination was last changed.

The records and communications supervisor, university police department, stated that several controls are in place to safeguard the cash receipts. She indicated that the booth attendants have individually-assigned locking cash bags and keys. The bags are deposited in the safe, and every safe entry is logged. She further stated that the combination to the safe is known only to her and the dispatchers, and it is located in the dispatch room, which is manned 24 hours a day. She confirmed that in order to enter the dispatch room, one must pass through the main door, which is locked at all times.

State University Administrative Manual (SUAM) §3821 states that the chief business officer shall establish control procedures to ensure that all monies due are collected and are safeguarded, deposited, reconciled, remitted, and invested in a timely manner.

SAM §8024 states that a record will be kept showing: (a) date the combination last was changed and (b) names of persons knowing the present combination. Additionally, the combination will be changed when it becomes known to an excessive number of employees or if any employee having knowledge of the combination leaves the employ of the agency or no longer requires the combination in the performance of his or her duties.

The potential for cash deposit loss or theft increases during the period in which cash is inadequately secured.

## **Recommendation 2**

We recommend that the campus:

- a. Establish procedures to ensure that cash collections are adequately safeguarded.
- b. Change the combination to the safe in parking and maintain a record of who has the combination.

## **Campus Response**

We concur with the recommendation.

- a. The Director of Student Health Services has issued a written directive to the pharmacists instructing them to keep: (a) the pharmacy door locked at all times and (b) the daily deposit in the safe. The director will follow up on compliance to the directive.
- b. Parking Services has implemented a procedure that documents when the combination of the safe is changed and names of persons who have the combination and provides for changing the combination on an annual basis.

*Timeline: Completed June 12, 2001*

## **APPLICATION FEE RECONCILIATIONS**

The campus did not complete application fee reconciliations for each academic year term.

SUAM §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year term and maintained on file by each campus.

The associate vice president, finance and administrative services, stated that an annual reconciliation was acceptable in the past for operational purposes.

By not reconciling fees timely, errors or misappropriation of funds may not be detected.

## **Recommendation 3**

We recommend that the campus establish and implement procedures to complete application fee reconciliations for each academic year term and include the names of the preparer and reviewer, including dates prepared and reviewed, on the fee reconciliation.

### **Campus Response**

We concur with the recommendation. The campus is already preparing application fee reconciliations annually. A reconciliation will be prepared for the year ended June 30, 2001. Thereafter, reconciliations will be performed on a quarterly basis. The report format includes the name of the preparer and reviewer along with the applicable dates.

*Timeline: August 15, 2001*

## **ACCOUNTS RECEIVABLE**

Documentation of collection efforts and procedures for student accounts and external receivables were inadequate.

We found that:

- ▶ Student receivable collection efforts did not evidence a series of collection letters stated in a progressively stronger tone.
- ▶ External receivable collection efforts did not evidence prompt follow-up.
- ▶ Inadequate documentation of collection efforts had a negative impact on the application for discharge from accountability being approved in a timely manner. Applications submitted for discharge in 1997, 1998, and 1999 were returned, since the applications did not provide documentation of the specific collection efforts made.

SUAM §3822 requires each campus to establish procedures that provide prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls.

SAM §8776.6 states, in part, that once the address of the debtor is known, 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 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 follow-up letter. This last letter will include reference to prior letters and will state what further actions may be taken in the collection process.

The manager, student accounts and cashiers services, stated that due to staffing limitations, collection priorities were focused on Perkins loans. In regard to the application for discharge from accountability, he stated that staffing limitations also had an impact on the lack of documentation that was available to send with the application.

When receivables are not promptly collected, there is a negative impact on cash flow and the likelihood of collection is reduced.

**Recommendation 4**

We recommend that the campus establish and implement procedures to ensure that account collection efforts are timely and documented.

**Campus Response**

We concur with the recommendation. The campus will redraft the three collection letters with each successive letter carrying a stronger tone. The follow-up letters will be issued in 30-day intervals. To assure that collection efforts are exerted on all receivables, we are recruiting an additional Collection Representative. We expect to complete the hire by June 30, 2001.

*Timeline: August 31, 2001*

## **PURCHASING**

Procurement card transaction receipts were inappropriately signed by employees other than the cardholder.

We reviewed 10 procurement card statements from September 2000 and found that two statements contained transaction receipts signed by employees other than the cardholder.

The campus procurement credit-card acknowledgement and responsibility form signed by the cardholder states, in part, that any misuse of the card may result in card suspension and defines “unauthorized use” as allowing someone other than the cardholder to use the card.

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

The director, procurement and support services, stated that the procedures are clear and are covered in the procurement credit-card training program; however, certain departments do not follow them consistently. He further stated that this might happen when an order is placed on the phone and the employee picking up the order signs the receipt.

Inadequate procedures related to the approval of purchases increase the risk of inappropriate expenditures.

**Recommendation 5**

We recommend that the campus strengthen procedures to ensure that procurement cards are only used by authorized cardholders.

### **Campus Response**

We concur with the recommendation. To ensure that established procedures are consistently followed, we recently retrained all cardholders and provided a revised copy of the procurement credit-card manual. Noncompliance will be progressively sanctioned as indicated in the manual, up to and including revocation of the procurement card and its privileges.

*Timeline: Completed April 25, 2001*

## **CASH DISBURSEMENTS**

### **SEGREGATION OF DUTIES**

Accounting office employees were performing duties that were incompatible with good internal control.

We found that:

- ▶ The computer check log and the check-signature register were not independently reviewed to ensure accountability. The individuals maintaining the logs performed reviews of their respective logs.
- ▶ Two employees had access to the key for the check-signing machine and were assigned signature-plate responsibilities. One employee had primary responsibility and the second employee served as her backup.

SAM §8081 states that at the end of the month, full accountability will be made of all checks used by comparing the daily log maintained by the person who reviews authorizations, checks, and supporting documents with the daily log maintained by the individual who prepares checks or the person who controls blank check stock.

SAM §8080 provides that a key element of a system of internal control is separation of duties. It further states that no person will perform more than one of the following types of duties: preparing checks, operating a check-signing machine, and having access to or control of blank check stock.

SAM §8081 states that for check-signing machines requiring only one key, the person whose signature is used will control the key. In the event that the person whose signature is used is traveling or otherwise not available, the key normally controlled by this person may be assigned to a responsible person other than the operator of the check-signing machine.

The associate vice president, finance and administrative services, indicated that he was unaware of the check logs not being independently verified. He further stated that to cover staff absences, the custody of the signature plate was available to two staff members.

Exposure to risk of improper acts increases significantly when employees perform incompatible disbursement duties.

### **Recommendation 6**

We recommend that the campus take appropriate action to separate cash disbursement duties to ensure compliance with internal controls.

### **Campus Response**

We concur with the recommendation. The University has completed all necessary actions related to this recommendation.

The logs are now independently reviewed at the end of each month to strengthen controls.

<b>Log/Register</b>	<b>Maintained By</b>	<b>Reviewed By</b>
Master check stock log	Linda Wheeler, Vault Cashier	Beth Crisostomo, Collections Specialist II
Released check stock log	Kathy Harper, Administrative Support Coordinator I	Al Viteri, Lead Accountant

To enhance controls on the check-signing machine, we have cross-trained alternate staff members. When one of the primary staff members is out of the office, the duties will shift to the alternate thus assuring that separation of duties is maintained.

<b>Description</b>	<b>Primary Responsibility</b>	<b>Alternate</b>
Prepare Checks	Sheryl Martin, Accounting Technician III	Kathy Harper, Administrative Support Coordinator I
Check-signing machine	Kathy Harper, Administrative Support Coordinator I	Martha Schumaker, Accounting Clerk
Control blank check stock	Linda Wheeler	Carla Perez, Accounting Tech III

The key to the check-signing machine is now in the control of Darwin Labordo, Associate VP Finance and Administrative Services, the person whose signature is used. When not available, the key will be assigned to another management person (Director of Accounting Services or Manager of Student Accounts and Cashier Services).

*Timeline: Completed June 11, 2001*

## **LONG-OUTSTANDING CHECKS/DEPOSITS IN TRANSIT**

Checks that were outstanding for a period in excess of one year and deposits in transit were not remitted timely.

As of January 16, 2001, outstanding checks totaled \$256,146.64, and deposits in transit totaled \$26,824.85. The deposits in transit dated back to March 1996.

SAM §8042 states that office revolving fund checks for which the reimbursement has been received and agency checks, whether uncashed for more than one year or unclaimed, will be canceled and the amount of such checks will be remitted to an escheat revenue account in the fund from which they were drawn. Amounts of uncashed checks will not be remitted until the agency receives a confirmation of the stop payment from the State Treasurer's Office.

Good business practice requires that outstanding deposits be promptly researched and cleared.

The associate vice president, finance and administrative services, indicated that due to staffing shortages, prompt follow-up on outstanding checks and deposits has been difficult.

Not canceling or remitting long-outstanding checks and warrants timely could result in reversion to the General Fund and require additional effort to review outstanding checks and warrants during the reconciliation process. Long-outstanding deposits increase the risk of inappropriate acts and misuse of state money.

### **Recommendation 7**

We recommend that the campus establish and implement procedures to:

- a. Cancel or remit long-outstanding checks to an escheat revenue account in the fund from which they were drawn on a timely basis.
- b. Promptly research and clear outstanding deposits in transit.

### **Campus Response**

We concur with the recommendation.

- a. The campus will prepare an aging schedule of all outstanding checks with the objective of maintaining an average age of no more than six months. Checks that are outstanding for more than one year are escheatable and will be remitted after confirmation of stop payment.
- b. All uncleared deposits in transit noted during the audit have been resolved. It is now the department's procedure to clear all deposits in transit within 15 working days.

*Timeline: July 31, 2001*

## **FISCAL IT**

### **USER ACCOUNT DELETION**

Security administration over account revocation required improvement.

Employees responsible for removing access to both the DEC/VAX and IBM mainframe computers were not notified of terminations, and access was not removed in a timely manner. There was no provision made to remove access by nonemployees.

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

The accounts coordinator, enterprise computing, stated that the campus is not communicating to the chancellor's office mainframe security administrator or the campus information technology (IT) staff when an employee leaves or no longer requires access to the mainframe computer.

Inadequate user account deletion could lead to unauthorized personnel having access to sensitive data.

#### **Recommendation 8**

We recommend that the campus develop and implement a formal and systematic process that includes access to all computer systems for user account deletion to include employees that transfer and terminate.

#### **Campus Response**

We concur with the recommendation. The campus will prepare a comprehensive user account deletion procedure. A task force consisting of representatives from Human Resource Services, Financial Services, Records, and Admissions will address this issue.

*Timeline: December 14, 2001*

## **OPEN NETWORK**

Not all campus ports required server authentication.

Consistent server login requirements have not been established for departmental computing.

SAM §20050 requires that there be a plan that limits access to state agency assets to authorized personnel who require these assets in their assigned duties.

The database administrator, enterprise computing, indicated that the campus is on a decentralized network as a result of different departments being responsible for implementation individually.

An open network increases the risk of and exposure to hack attempts, nontraceable events and user misconduct. Authentication by a network server ensures that the connected users are authorized by the campus to use network/computing resources and provides accountability for activities performed on campus systems.

By allowing network ports that do not require authentication, the campus is exposed to potential unauthorized activities such as network password scanning and denial service attacks against outside parties perpetrated using the campus system by unknown individuals. Network scanning could reveal the identifications and passwords of authorized users that could be used to gain unauthorized access to servers used to support campus operations.

Denial of service (or e-mail spam) attacks launched from campus systems could expose the university to potential lawsuits and public embarrassment.

### **Recommendation 9**

We recommend that the campus:

- a. Establish consistent server login requirements for departmental computing.
- b. Establish departmental security guidelines to reduce server vulnerabilities.
- c. Implement procedures for all authorized users to formally acknowledge and agree to abide by campus policy for use of computer resources.

### **Campus Response**

We concur with the recommendation.

- a. Server login requirements for departmental computing will be defined and implemented.
- b. The Enterprise Computing (EC) department will define departmental security guidelines and standards. EC will distribute the guidelines to all affected departments and assist in their interpretation if needed.
- c. The campus already has procedures in place for users to acknowledge and to agree to computer policies. The Administrative Request Form requires the acknowledgment and signature of the employee, supervisor, campus information security officer, database administrator and accounts coordinator. In addition, access to the FRS system is granted only upon completion of the CSU/FRS Financial System User Access Request Form. The form requires the acknowledgment and signature of the employee and supervisor.

*Timeline: Items a & b – October 31, 2001; Item c – Completed*



## PHYSICAL ACCESS

Physical access controls to the computer room were inadequate.

We found that:

- ▶ Forty-two employees and vendors had access to the data center.
- ▶ Seven additional departments with various employees had master access to campus facilities.
- ▶ Facilities management was unable to identify who administered touch-pad access to the data center.

Standard security practices include that physical access to computer rooms should be secured, and security policy for computer systems and data should include regulatory, legal, and management directives for accessing computers, software, confidential data, and the Internet.

The emergency services coordinator, police and parking services, stated that a recent upgrade in the card-key system blanketed master and authorized access to campus facilities.

Without adequate data security, the campus runs the risk of unauthorized access to systems and confidential data.

### Recommendation 10

We recommend that the campus:

- a. Identify all individuals who have access to the data center.
- b. Establish procedures to limit access to the data center to individuals in accordance with their job responsibilities.
- c. Define the role and responsibilities of data center touch-pad access.

### Campus Response

We concur with the recommendation.

- a. A listing of all individuals who have data center access will be maintained. Every six months, the listing will be reviewed by the Associate Vice President, Enterprise Computing.
- b. Procedures and guidelines on granting access to the data center will be prepared. Job responsibilities will play a primary role in the authorization of access.
- c. In conjunction with item b, procedures on touch pad access will be defined.

*Timeline: December 14, 2001*

## **DISASTER RECOVERY/BUSINESS CONTINUITY PLAN**

The campus did not have an information technology (IT) disaster recovery plan, and they have not developed a business continuity plan to ensure that business operations would continue with minimal disruption and could be restored in a reasonable time frame in the event of a disaster.

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

SAM §4843.1 requires each state agency to establish and maintain both an operational recovery plan to protect its information assets in the event of a disaster or serious disruption to its operations and a plan for resuming operation following a disaster affecting those applications.

Executive Order No. 524 states, in part, that each campus president is delegated the responsibility for the implementation of a multi-hazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multi-hazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The associate vice president, enterprise computing, stated that although a contract was in place to acquire the necessary hardware, formally documented policies and procedures had not been completed. He further stated that developing a business continuity plan would need to occur on a campus level, as operational requirements of the entire campus community would have to be considered.

Without disaster recovery and business continuity plans, the campus may not be able to assure continuity of computing operations for support of critical applications.

### **Recommendation 11**

We recommend that the campus develop and document an IT disaster recovery plan and a campus business continuity plan.

### **Campus Response**

We concur with the recommendation. A Disaster Recovery Agreement with El Camino Resources, Ltd. is in place. In addition, a Risk Analysis and Disaster Recovery Plan specific to Instructional and Information Technology exists. These two plans need to be coordinated and enhanced into a Business Continuity Plan. The effort will be collaborated with all affected divisions.

*Timeline: December 14, 2001*

## **DATA BACKUP PROCEDURE**

Data backup and recovery procedures were not adequate.

Daily backup tapes were retained in the server caddy for one week prior to being placed in a fireproof safe.

SAM §20050 states that there should be an established system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The data services coordinator, enterprise computing, stated that the hardware used to perform the backups is a five-tape caddy that is changed once per week. Additionally, the backup tapes are rotated on a weekly basis from the fireproof safe to an off-site facility.

Without adequate backup procedures, in the event of a disaster, the campus could lose critical data that could affect operating capacity and efficiency.

### **Recommendation 12**

We recommend that the campus remove backup tapes from the server caddy on a daily basis.

### **Campus Response**

We concur with the recommendation.

We will improve procedures to store daily backups outside of Computer Operations, utilizing our vault in Building 1 and a data archival company for storage of tapes.

*Timeline: September 28, 2001*

## **TRUST FUNDS**

### **DOCUMENTATION**

Campus trust agreements did not contain all of the required documentation.

Eleven trust accounts out of a sample of sixteen lacked instructions for closing the account, had unclear or no disposition of unexpended balances, or had no documentation of the expiration date.

SAM §19440.1 states that each trust account established shall be supported by documentation, including instructions for closing each account, time constraints, and disposition of any unexpended balances in the account.

The associate vice president, finance and administrative services, stated that all dispositions are reviewed prior to closing the account. He further stated that there was a misinterpretation by the department completing the trust agreement as to how the form should be filled out.

Inadequately documented trust agreements increase the risk of inappropriate or untimely disposition of funds.

### **Recommendation 13**

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

### **Campus Response**

We concur with the recommendation. The campus will review all existing trust agreements paying particular attention to the disposition instructions. If it is found that instructions are missing or unclear the specific account holders will be contacted and corrective action taken.

*Timeline: September 28, 2001*

## **EXPENDITURES**

Control over trust fund expenditures required improvement.

We found that:

- ▶ Expenditures were approved by individuals other than those with signatory approval on the trust agreement or the signature authorization form.
- ▶ For one trust fund, the authorization for expenditures was unclear. The source of funds to establish the trust fund was General Fund money from 1994.

SAM §19440.1 requires trust accounts to be supported by documentation indicating persons authorized to withdraw or expend funds and specimen signatures.

Education Code §89721 through §89725 authorize and define trust funds, but there is no specific authorization for General Fund reimbursements.

Government Code §16301 further provides, in part, as follows:

Except as otherwise provided by law, all money belonging to the State received from any source whatever by any state agency shall be ... paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation.

The associate vice president, finance and administrative services, stated that procedures to verify signatures were not fully adhered to due to reliance on departmental review of trust fund expenditures. He further stated that he was not aware that the source of funds to establish one trust fund was General Fund money, as the fund was established prior to his current position. He also stated that he would perform a review of expenditures from this account for appropriateness.

Failure to ensure that only authorized individuals approve trust fund expenditures increases the risk of inappropriate expenditures. Funding trust accounts from unauthorized sources creates risk exposure for misappropriation of funds through trust accounts.

#### **Recommendation 14**

We recommend that the campus establish procedures to:

- a. Ensure that trust account expenditures are appropriately authorized.
- b. Deposit and expend all General Fund reimbursements within systemwide and state budgetary guidelines.

#### **Campus Response**

We concur with the recommendation.

- a. An Accounting Technician will be assigned the responsibility of verifying trust account expenditure requests against the signature approval documents.
- b. The Accounting Technician assigned will be trained by the Accounts Payable Lead and will be provided with copies of applicable procedures and regulations.

*Timeline: August 31, 2001*

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Bob H. Suzuki	President
Anita Aguirre	Administrative Analyst/Specialist
Cathy Baker	Coordinator Administrative Services, Student Health Services
Richard Beck	Pharmacist, Student Health Services
Don Bonser	Supervising Parking Officer, Police and Parking Services
Armando Bustamante	Shipping and Receiving Technician
Gay Butcher	Buyer III, Procurement and Support Services
Naomi Caldwell	Director, Payroll Services
Shirley Campos	Accounts Campus Specialist
Dolly Cochran	Data Services Coordinator, Enterprise Computing
Tim Fraser	Database Administrator, Enterprise Computing
Gary Fredericksen	Director, Student Health Services
Donald Green	Director, Procurement and Support Services
Kathy Harper	Secretary, Finance and Administrative Services
Sharon Hinrichsen	Administrative Operations Analyst, Procurement and Support Services
Edward Hohmann	Dean, College of Engineering
Charles Holt	Manager of Parking and Administrative Services
Joan Horn	Buyer/Customer Service, Procurement and Support Services
Brian Jenkins	Director of Accounting Services
Darwin Labordo	Associate Vice President, Finance and Administrative Services
Lu Mandel	Records and Communications Supervisor, University Police Department
Sheryl Martin	Systems Coordinator, General Accounting
Debbie McFall	Emergency Services Coordinator, Police and Parking Services
Shelly Montoya	Accounts Payable Supervisor
Sylvia Moriel	Buyer, Procurement and Support Services
Becky Pepping	Buyer, Procurement and Support Services
Manuel Pilonieta	Acting Associate Vice President, Enterprise Computing
Janet Rice	Accounts Coordinator, Enterprise Computing
Caryn Romo	Library Assistant
Ray Rosario	Supervising Parking Officer, Police and Parking Services
Debra Schneck	Contracts Administrator, Procurement and Support Services
Albert Sim	Manager, Student Accounts and Cashiers Services
Charlie Smith	Administrative Support Coordinator, Police and Parking Services
Gwendolyn Stevens	Financial Reporting Specialist
William Verbrugge	Associate Vice President, Enterprise Computing
Joyce Wagar	Financial Reporting Accountant, University Financial Services
Linda Wheeler	Vault Cashier
Marla Williams	Administrative Support Assistant, Student Health Center

## **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.



Office of the President

**RECEIVED**  
University Auditor

JUN 25 2001

The California State  
University

June 14, 2001

Mr. Larry Mandel  
University Auditor  
Office of the Auditor  
The California State University  
400 Golden Shore, Suite 210  
Long Beach, CA 90802

Dear Mr. Mandel:

**Subject: Campus Response to Recommendations of FISMA Audit Report 00-09**

Enclosed is California State Polytechnic's campus response to the FISMA Audit Report Number 00-09. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report's recommendations.

Please direct questions concerning the response to Darwin Labordo, Associate Vice president of Finance and Administrative Services at 909-869-2009 or [dlabordo@cvsupomona.edu](mailto:dlabordo@cvsupomona.edu).

Sincerely,

Bob H. Suzuki  
President

cc: Patricia L. Farris, Vice President, Administrative Affairs  
Michael Berman, Vice President, Instructional & Information Technology  
Laraine Turk, Acting Vice President, Student Affairs  
Darwin Labordo, Associate Vice President, Finance & Administrative Services

Enclosure

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA**  
**Report Number 00-09 FISMA Audit**

<b>Recommendation Number</b>	<b>Description</b>	<b>Completed</b>	<b>In Progress</b>	<b>Expected Completion</b>
1	Password Confidentiality	X		
2	Satellite Cashiering	X		
3	Application Fee Reconciliations		X	August 15, 2001
4	Accounts Receivable		X	August 31, 2001
5	Purchasing	X		
6	Segregation of Duties	X		
7	Long Outstanding Checks/Deposits in Transit		X	July 31, 2001
8	User Account Deletion		X	December 14, 2001
9a & b	Open Network		X	October 31, 2001
9c	Open Network	X		
10	Physical Access		X	December 14, 2001
11	Disaster Recovery/Business Continuity Plan		X	December 14, 2001
12	Data Backup Procedure		X	September 28, 2001
13	Documentation		X	September 28, 2001
14	Expenditures		X	August 31, 2001

Campus Documentation to Support  
Response to Recommendations of Audit Report Number 00-09, FISMA at  
California State Polytechnic University, Pomona  
June 13, 2001

**CASH RECEIPTS - PASSWORD CONFIDENTIALITY**

**Recommendation 1:** We recommend that the campus review system capabilities and establish procedures to ensure password confidentiality.

**Campus Response:**

We concur with the recommendation. The system at student accounts and cashiers services has been changed so that holds on student accounts can be removed by another authorized cashier. With this change, there is no longer a need to share passwords to remove holds when the cashier who placed it is not available. All staff members now have new confidential passwords and accountability for their transactions are directly traceable.

**Timeline:** Completed June 12, 2001.

**CASH RECEIPTS - SATELLITE CASHIERING**

**Recommendation 2:** We recommend that the campus:

- a. Establish procedures to ensure that cash collections are adequately safeguarded.
- b. Change the combination to the safe in parking and maintain a record of who has the combination.

**Campus Response:**

We concur with the recommendation.

- a. The Director of Student Health Services has issued a written directive to the pharmacists instructing them to keep: 1) the pharmacy door locked at all times, and b) the daily deposit in the safe. The director will follow-up on compliance to the directive.
- b. Parking Services has implemented a procedure that documents when the combination of the safe is changed and names of persons who have the combination, and provides for changing the combination on an annual basis.

**Timeline:** Completed June 12, 2001

**CASH RECEIPTS – APPLICATION FEE RECONCILIATIONS**

**Recommendation 3:** We recommend that the campus establish and implement procedures to complete application fee reconciliations for each academic year term and include the names of the preparer and reviewer, including dates prepared and reviewed, on the fee reconciliation.

**Campus Response:**

We concur with the recommendation. The campus is already preparing application fee reconciliations annually. A reconciliation will be prepared for the year ended June 30, 2001. Thereafter, reconciliations

will be performed on a quarterly basis. The report format includes the name of the preparer and reviewer along with the applicable dates.

**Timeline: August 15, 2001**

### **ACCOUNTS RECEIVABLE**

**Recommendation 4:** We recommend that the campus establish and implement procedures to ensure that account collection efforts are timely and documented.

#### **Campus Response:**

We concur with the recommendation. The campus will re-draft the three collection letters with each successive letter carrying a stronger tone. The follow-up letters will be issued in 30 day intervals. To assure that collection efforts are exerted on all receivables, we are recruiting an additional Collection Representative. We expect to complete the hire by June 30, 2001.

**Timeline: August 31, 2001**

### **PURCHASING**

**Recommendation 5:** We recommend that the campus strengthen procedures to ensure that procurement cards are only used by authorized cardholders.

#### **Campus Response:**

We concur with the recommendation. To ensure that established procedures are consistently followed, we recently retrained all cardholders and provided a revised copy of the procurement credit card manual. Non-compliance will be progressively sanctioned as indicated in the manual, up to and including revocation of the procurement card and its privileges.

**Timeline: Completed April 25, 2001**

### **CASH DISBURSEMENTS - SEGREGATION OF DUTIES**

**Recommendation 6:** We recommend that the campus take appropriate action to separate cash disbursement duties to ensure compliance with internal controls.

#### **Campus Response:**

We concur with the recommendation. The University has completed all necessary actions related to this recommendation.

The logs are now independently reviewed at the end of each month to strengthen controls.

<b>Log/Register</b>	<b>Maintained By</b>	<b>Reviewed By</b>
Master check stock log	Linda Wheeler, Vault Cashier	Beth Crisostomo, Collections Specialist II
Released check stock log	Kathy Harper, Administrative Support Coordinator I	Al Viteri, Lead Accountant

To enhance controls on the check signing machine, we have cross-trained alternate staff members. When one of the primary staff members is out of the office, the duties will shift to the alternate thus assuring that separation of duties is maintained.

Description	Primary Responsibility	Alternate
Prepare Checks	Sheryl Martin, Accounting Technician III	Kathy Harper, Administrative Support Coordinator I
Check-signing machine	Kathy Harper, Administrative Support Coordinator I	Martha Schumaker, Accounting Clerk
Control blank check stock	Linda Wheeler	Carla Perez, Accounting Tech III

The key to the check-signing machine is now in the control of Darwin Labordo, Associate VP Finance and Administrative Services, the person whose signature is used. When not available, the key will be assigned to another management person (Director of Accounting Services or Manager of Student Accounts and Cashier Services).

**Timeline: Completed June 11, 2001**

### **CASH DISBURSEMENTS - LONG OUTSTANDING CHECKS/DEPOSITS IN TRANSIT**

**Recommendation 7:** We recommend that the campus establish and implement procedures to:

- a. Cancel or remit long outstanding checks to an escheat revenue account in the fund from which they were drawn on a timely basis.
- b. Promptly research and clear outstanding deposits in transit.

#### **Campus Response:**

We concur with the recommendation.

- a. The campus will prepare an aging schedule of all outstanding checks with the objective of maintaining an average age of no more than 6 months. Checks that are outstanding for more than one year are escheatable and will be remitted after confirmation of stop payment.
- b. All uncleared deposits in transit noted during the audit have been resolved. It is now the department's procedure to clear all deposits in transit within 15 working days.

**Timeline: July 31, 2001**

### **FISCAL IT – USER ACCOUNT DELETION**

**Recommendation 8:** We recommend that the campus develop and implement a formal and systematic process that includes access to all computer systems for user account deletion to include employees that transfer and terminate.

#### **Campus Response:**

We concur with the recommendation. The campus will prepare a comprehensive user account deletion procedure. A task force consisting of representatives from Human Resource Services, Financial Services, Records, and Admissions will address this issue.

**Timeline: December 14, 2001**

**FISCAL IT – OPEN NETWORK**

**Recommendation 9:** We recommend that the campus:

- a. Establish consistent server login requirements for departmental computing.
- b. Establish departmental security guidelines to reduce server vulnerabilities.
- c. Implement procedures for all authorized users to formally acknowledge and agree to abide by campus policy for use of computer resources.

**Campus Response:**

We concur with the recommendation.

- a. Server login requirements for departmental computing will be defined and implemented.
- b. The Enterprise Computing (EC) department will define departmental security guidelines and standards. EC will distribute the guidelines to all affected departments and assist in their interpretation if needed.
- c. The campus already has procedures in place for users to acknowledge and to agree to computer policies. The Administrative Request Form requires the acknowledgment and signature of the employee, supervisor, campus information security officer, data base administrator and accounts coordinator. In addition, access to the FRS system is granted only upon completion of the CSU/FRS Financial System User Access Request Form. The form requires the acknowledgment and signature of the employee and supervisor.

**Timeline:** Items a & b – October 31, 2001; Item c – Completed

**FISCAL IT – PHYSICAL ACCESS**

**Recommendation 10:** We recommend that the campus:

- a. Identify all individuals who have access to the data center.
- b. Establish procedures to limit access to the data center to individuals in accordance with their job responsibilities.
- c. Define the role and responsibilities of data center touch-pad access.

**Campus Response:**

We concur with the recommendation.

- a. A listing of all individuals who have data center access will be maintained. Every 6 months, the listing will be reviewed by the Associate Vice President, Enterprise Computing.
- b. Procedures and guidelines on granting access to the data center will be prepared. Job responsibilities will play a primary role in the authorization of access.
- c. In conjunction with item b, procedures on touch pad access will be defined.

**Timeline:** December 14, 2001

**FISCAL IT – DISASTER RECOVERY/BUSINESS CONTINUITY PLAN**

**Recommendation 11:** We recommend that the campus develop and document an information technology disaster recovery plan and a campus business continuity plan.

**Campus Response:**

We concur with the recommendation. A Disaster Recovery Agreement with El Camino Resources, Ltd. is in place. In addition, a Risk Analysis and Disaster Recovery Plan specific to Instructional and Information Technology exists. These two plans need to be coordinated and enhanced into a Business Continuity Plan. The effort will be collaborated with all affected divisions.

**Timeline: December 14, 2001**

**FISCAL IT – DATA BACKUP PROCEDURE**

**Recommendation 12:** We recommend that the campus remove backup tapes from the server caddy on a daily basis.

**Campus Response:**

We concur with the recommendation.

We will improve procedures to store daily backups outside of Computer Operations, utilizing our vault in Building 1 and a data archival company for storage of tapes.

**Timeline: September 28, 2001**

**TRUST FUNDS – DOCUMENTATION**

**Recommendation 13:** We recommend that the campus strengthen procedures to ensure that trust fund agreements are properly supported.

**Campus Response:**

We concur with the recommendation. The campus will review all existing trust agreements paying particular attention to the disposition instructions. If it is found that instructions are missing or unclear the specific account holders will be contacted and corrective action taken.

**Timeline: September 28, 2001**

**TRUST FUNDS – EXPENDITURES**

**Recommendation 14:** We recommend that the campus establish procedures to:

- a. Ensure that trust account expenditures are appropriately authorized.
- b. Deposit and expend all General Fund reimbursements within systemwide and state budgetary guidelines.

**Campus Response:**

We concur with the recommendation.

- a. An Accounting Technician will be assigned the responsibility of verifying trust account expenditure requests against the signature approval documents.

- b. The Accounting Technician assigned will be trained by the Accounts Payable Lead and will be provided with copies of applicable procedures and regulations.

**Timeline: August 31, 2001**

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

July 9, 2001

CHICO

MEMORANDUM

DOMINGUEZ HILLS

TO: Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor

HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 00-09 on *FISMA*,  
California State Polytechnic University, Pomona

LONG BEACH

LOS ANGELES

In response to your memorandum of July 9, 2001, I accept the response as submitted with the draft final report on *FISMA*, California State Polytechnic University, Pomona.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

LM:amd

POMONA

Enclosure

SACRAMENTO

cc: Dr. Bob H. Suzuki, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS