

**FISMA**

**SAN JOSE STATE UNIVERSITY**

**Report Number 00-11  
September 6, 2001**

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## ABBREVIATIONS

BRS	Billing Receivable System
CFAC	Campus Fee Advisory Committee
CSU	California State University
DRP	Disaster Recovery Plan
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
FRS	Financial Records System
IT	Information Technology
SAM	State Administrative Manual
SJSU	San Jose State University
S&T	Systems & Technology
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 years 1998-99 and 1999-2000 were the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was through March 2001. 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 San Jose State University from January 16, 2001, through March 29, 2001, and made a study and evaluation of the accounting and administrative control in effect as of March 29, 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.

San Jose State University'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, accounts receivable, and fixed assets.

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, San Jose State University's accounting and administrative controls in effect as of March 29, 2001, taken as a whole, were 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 [6]**

#### **RESTRICTIVE ENDORSEMENTS [6]**

Checks received in athletics were not restrictively endorsed. Adequate controls related to check endorsements reduce the risk of loss due to inappropriate actions.

#### **RECONCILIATIONS [6]**

Reconciliations were not taking place with respect to both Spartan Daily advertising revenues and campus transcript fees. Reconciling revenues improves accountability and reduces the risk that funds will be misappropriated.

### **ACCOUNTS RECEIVABLE [7]**

#### **SPARTAN DAILY RECEIVABLES [7]**

The Spartan Daily did not record its accounts receivable in the campus accounting system and lacked formalized collection procedures. Maintaining adequate controls over accounts receivable and collections increases working capital and decreases lost revenues.

#### **DELINQUENT ACCOUNT COLLECTION [8]**

Collection activity for certain delinquent accounts receivable was not adequate. Prompt follow-up of accounts receivable improves the likelihood of collection and increases revenue.

### **FIXED ASSETS [9]**

The campus did not adequately manage property dispositions and specifically lacked a property survey board. Adequate property disposition policies and procedures, including a property survey board, ensure accountability for university property.

## **FISCAL INFORMATION TECHNOLOGY [11]**

### **ACCOUNT DELETION [11]**

Mainframe identifications used for the Financial Records System (FRS) application had been revoked but not deleted from the system. Deleting these identifications improves security.

### **DISASTER RECOVERY/BUSINESS CONTINUITY PLAN [11]**

Although the campus had a very comprehensive information technology (IT) disaster recovery plan (DRP), the individual campus departments had not developed business continuity plans to enable business operations to continue in the event of an extended outage of data processing services. A DRP with corresponding business continuation procedures ensures full restoration of business operations within a reasonable time frame.

### **PROGRAM CHANGE CONTROL [12]**

The process for modifying program code was decentralized to three separate groups, and informal and management authorizations were lacking or implied. In addition, programmers had unlimited access to programs and data. Program change policies and procedures that prevent all persons with programming responsibilities from making changes directly to production programs decrease the risk of unauthorized changes and preserve internal controls.

### **INFORMATION SECURITY [13]**

Some mainframe security settings (called RACF) need to be changed to strengthen systemwide security, and many sensitive libraries were not sufficiently protected. Adequate security settings and protection of sensitive libraries reduce the risk that security software will be accidentally or maliciously disabled, and sensitive system information will be revealed.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CASH RECEIPTS

#### RESTRICTIVE ENDORSEMENTS

Checks received in athletics were not restrictively endorsed.

State Administrative Manual (SAM) §8023 requires that all checks, money orders, and warrants received for deposit be restrictively endorsed for deposit as soon as practicable after receipt, but no later than the end of the working day.

SAM §8034.1, *General Endorsement Instructions*, states, in part, that agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received. Timely endorsements serve to discourage the use of lost or stolen negotiable instruments by someone other than the state agency.

The administrative analyst in the athletics business office indicated that checks were not endorsed because the office had not been provided an endorsement stamp.

Inadequate controls related to endorsements increase the risk of loss due to inappropriate actions.

#### **Recommendation 1**

We recommend that the campus strengthen procedures to ensure that all checks are endorsed timely.

#### **Campus Response**

We concur. We have met with the University Athletics Office to go over the required procedures for restrictive endorsement of negotiable instruments. We have ensured that the department has a restrictive endorsement stamp and is currently being used.

#### RECONCILIATIONS

Reconciliations were not taking place with respect to both Spartan Daily advertising revenues and campus transcript fees.

Spartan Daily revenues were not reconciled to insertion orders and statistics maintained on classified and display advertising. Additionally, the number of transcripts issued was not reconciled to transcript fees. Such reconciliations compare the accounting records with the revenues that should have been received.

SAM §20050 requires an effective system of internal control that would include regular reconciliations of control account totals to subsidiary accounting record totals.

The clerical assistant and accounting technician at the Spartan Daily indicated that such reconciliations would be complex, and to date, they have not attempted to perform such reconciliations because their multiledger system is not sophisticated enough. The interim director of admissions and student resource center indicated that a reconciliation of transcript fees would be difficult because of their fee structure.

Not reconciling revenues reduces accountability and increases the risk of misappropriation of funds.

### **Recommendation 2**

We recommend that the campus independently verify and reconcile Spartan Daily advertising revenue and transcript fees.

### **Campus Response**

We concur. The Accounting Office will work with Spartan Daily staff to establish a reconciliation process for Spartan Daily advertising. This will be in place by December 31, 2001.

The Bursar's Office will be requesting the Campus Fee Advisory Committee, (CFAC), to approve a request to charge each student a flat transcript fee at the time of registration. Payments will be posted to individual student accounts. This will allow the University to track and reconcile all transcript revenue. This proposal will be presented to CFAC in November 2001, and we anticipate approvals from the appropriate officials by February 2002.

## **ACCOUNTS RECEIVABLE**

### **SPARTAN DAILY RECEIVABLES**

The Spartan Daily did not record its accounts receivable in the campus accounting system and lacked formalized collection procedures.

The Spartan Daily sold advertising space, billed advertisers, collected revenue, and administered accounts receivable as a program supervised by the school of journalism and mass communications. If there were delinquent advertisers who did not pay their bills, the newspaper staff and students attempted collection, but the delinquent accounts were not referred to the campus.

SAM §8776.1 requires that uncontested claims be recognized as valid receivables and recorded in agency accounts through specific entries.

SAM §8776.6 provides specific criteria for collecting outstanding amounts owed the university, including the use of collection letters, collection agencies, and tax offset.

The clerical assistant and accounting technician at the Spartan Daily indicated that they had always been responsible for their own collections because of the training opportunities afforded students running the newspaper.

Inadequate controls over accounts receivable and collections decrease working capital and increase the risk of loss of revenue.

### **Recommendation 3**

We recommend that the campus strengthen procedures to assure that Spartan Daily accounts are recorded in the campus system and scheduled for collection with other accounts receivables.

### **Campus Response**

We concur. We will implement a policy to book Spartan Daily advertising receivables to the General Ledger at year end so as to accurately reflect the University's receivable balance for financial reporting purposes. We will also implement a process and policy whereby Spartan Daily staff will forward delinquent accounts to the Collections Department for follow-up. These policies and procedures will be in place by December 31, 2001.

## **DELINQUENT ACCOUNT COLLECTION**

Collection activity for certain delinquent accounts receivable was not adequate.

Recent collection activity was not documented for 11 accounts reviewed that were delinquent for more than 90 days. The period where there had been no contact or documented collection activity generally exceeded five months for these accounts.

SAM §8776.6 provides specific criteria for collecting outstanding amounts owed the university, including the use of collection letters, collection agencies, and tax offset.

State University Administrative Manual (SUAM) §3822 also requires each campus to establish procedures that provide prompt follow-up of accounts receivable.

Executive Order (EO) No. 616, *Discharge of Accountability*, dated April 19, 1994, delegated authority to the campuses for local adjustments up to \$1,000.

The campus collection manager attributed this breakdown to the omission of certain vendors on reports provided the collection staff, in addition to not documenting contact information when the receivable was originally established.

Tardiness in pursuing all options in the collection of delinquent accounts receivable increases the potential for loss of revenue.

#### **Recommendation 4**

We recommend that the campus improve accounts receivable collection procedures.

#### **Campus Response**

We concur. Programming modifications have been made to ensure that all delinquent accounts are included in the FOCUS past-due reports reviewed by the collection staff. These reports will be compared to the aging reports produced by the Billing Receivable System, (BRS), as a means to verify accuracy. The Collection Manager has met with Housing Services to establish procedures to verify all housing debts are fed to BRS in a timely manner. The accounts cited in the audit were all related to conference contracts. Each of these accounts has been followed up on and is documented.

### **FIXED ASSETS**

The campus did not adequately manage property dispositions and specifically lacked a property survey board.

The absence of strong environmental controls in management of property dispositions had contributed to the following:

- ▶ Property survey reports were not properly executed in advance of the disposition.
- ▶ Three of ten survey reports requested could not be located.
- ▶ Property was disposed of on an honor system; no one witnessed the dispositions. The owning department made a disposition and then notified the property clerk after the fact.
- ▶ The campus had not made any meaningful efforts at property reutilization if an item was not used as a trade-in.
- ▶ Disposition dates in the IntelliTrack inventory system for property were the dates when the entry in the system was made and not the dates of the actual disposition.
- ▶ The campus did not have a current document that specifically defined who has authorization to sell university property, how authorization is to be exercised, when and how the property office should be involved, and expectations on the type of documentation that should be generated before and after the sale.
- ▶ Intercollegiate athletics sold a sports court originally purchased from the General Fund without the involvement of the property office and then erroneously deposited the proceeds into a San Jose State Foundation account.

SAM §3520.2 requires that each agency will have a duly appointed property survey board responsible for determining whether the best interest of the state is served in disposing of state property. At least two members of the property survey board will approve all property survey reports and any transfers of location of equipment.

SAM §3520.3 requires that a properly executed Property Survey Report, STD. 152, must be completed when disposing of state-owned property.

SAM §8640 requires that departments prepare a Property Survey Report, STD. 152, for disposal of state-owned property.

EO No. 649, *Safeguarding State Property*, dated February 15, 1996, delegated to each campus president the authority to establish and maintain a system of internal controls to safeguard property. The EO further states that the president may elect to follow the SAM guidelines or may institute a policy more appropriate to the university's environment.

The 1996 *San Jose State University Property Manual* states that surplus university property will be offered at public sale, and the property office must be involved in sales, exchanges, trade-ins, or donations of property.

The accounting manager indicated that the *San Jose State University Property Manual* had not been updated since the office was reassigned, and the mishandling of funds for the sports court occurred because they so rarely sell anything of value.

Inadequate management of property dispositions increases the risk that property will be misappropriated.

### **Recommendation 5**

We recommend that the campus establish a property survey board and charge them with the responsibility of establishing policies and procedures to address the property disposition weaknesses identified above.

### **Campus Response**

We concur. We have established a Property Survey Board consisting of the Director of Procurement, the Director of Accounting and Systems & Technology and the Accounting Manager. The Property Survey Board has been charged with oversight of all disposition of state property. We will update the *San Jose State University Property Manual* to reflect this change and to outline the necessary procedures. This will be completed by November 30, 2001.

## **FISCAL INFORMATION TECHNOLOGY**

### **ACCOUNT DELETION**

Mainframe identifications used for the Financial Records System (FRS) application had been revoked but not deleted from the system.

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 associate systems analyst, university computing and telecommunications, who is responsible for security administration, stated that these identifications had been in a revoked status at the campus for some time and had not been recently examined.

Leaving revoked accounts on the system does not represent an immediate security exposure, but rather represents a custodial activity. This condition could inadvertently lead to personnel being granted inappropriate access if the revoked identifications were reissued to others.

#### **Recommendation 6**

We recommend that the campus delete all identifications that are no longer used.

#### **Campus Response**

We concur. The San Jose State University (SJSU) Security Administrator will coordinate with area managers to determine if data sets need to be copied to another ID before they are deleted. This procedure will be completed within 30 days of receipt of the revocation form. We will have this procedure in place by December 31, 2001.

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

Although the campus had a very comprehensive information technology (IT) disaster recovery plan (DRP), the individual campus departments had not developed business continuity plans to enable business operations to continue in the event of an extended outage of data processing services.

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 the agency's plans for resuming operation following a disaster affecting those applications.

EO No. 696, *Implementation of the CSU Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of an emergency management system program on campus and shall ensure that management activities, including, but not limited to, maintenance and regular updating of the institutional emergency management system plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The senior director for university computing and telecommunications stated that business unit recovery procedures during an outage of data processing services had not been considered.

A detailed DRP without corresponding business continuation procedures could prevent the campus from fully restoring business operations within a reasonable time frame.

### **Recommendation 7**

We recommend that the campus enhance the IT DRP by developing a campus business continuity plan to sustain operations during an extended outage of data processing services. Specific items to consider include:

- ▶ An impact assessment to establish the recovery time frame for the IT DRP plan and to determine all essential equipment and services that IT will need to make available.
- ▶ Manual operating and recovery procedures for business units during an extended outage of data processing services, such as procedures for business unit recovery of up to one week's worth of lost data and procedures for entering data collected manually during the recovery of computer systems.

### **Campus Response**

We concur. The IT DRP already includes all essential equipment and the recovery time frame. The IT department is responsible for all major essential equipment except those servers under the purview of Systems & Technology (S&T). We will create a DRP for S&T by December 31, 2001.

SJSU already has in place a process to manually operate its business functions if there were an extended interruption to our systems. We actually have an annual event run by our Disaster Preparedness Coordinator to test the processes. We would be able to recreate lost data by collecting our diagnostics reports for the period and reentering the data.

### **PROGRAM CHANGE CONTROL**

The process for modifying program code was decentralized to three separate groups, and informal and management authorizations were lacking or implied. In addition, programmers had unlimited access to programs and data.

Our review disclosed that policies and procedures over program change management were not consistently documented and existing practices did not prevent all persons with programming responsibilities from making unauthorized changes to production programs.

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 financial application manager, university computing and telecommunications, and the production supervisor, university computing and telecommunications, stated that the decentralized nature of programming support for the financial, administrative, and student systems limits the number of information systems personnel responsible for each system. Accordingly, adequate segregation is not possible. Ideally, adequate segregation of duties should prevent all persons responsible for program maintenance from moving such changes into the production environment.

Allowing programmers the capability to make changes directly to production copies of programs increases the risk of unauthorized program changes and compromises internal controls.

### **Recommendation 8**

We recommend that the campus restrict all programmers from update access to production copies of programs or establish a detective control to identify which programs have been changed and require management to review such changes on a regular basis.

### **Campus Response**

We concur. Programmers are currently not allowed access to update production programs or files. We will establish a procedure that requires management approval for program changes. We will have this procedure in place by December 31, 2001.

## **INFORMATION SECURITY**

Some mainframe security settings (called RACF) needed to be changed to strengthen systemwide security, and many sensitive libraries were not sufficiently protected.

We noted that:

- ▶ Data sets stored on tape were not adequately protected.
- ▶ Passwords for the command to turn off RACF security were not changed from the default settings.
- ▶ Universal Read access was enabled to certain system libraries.

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 associate systems analyst, university computing and telecommunications, who is responsible for security administration, stated that these settings had been in effect at the campus for some time and had not been recently examined.

Lack of adequate security settings and protection of sensitive libraries increases the risk that security software could be accidentally or maliciously disabled and sensitive information about the system could be revealed.

### **Recommendation 9**

We recommend that the campus change the RACF settings mentioned above regarding tape data set protection and the security command, and change the universal access code setting to NONE for the sensitive libraries.

### **Campus Response**

We concur. We will coordinate with the system, RACF, and production technicians to determine which data sets and tapes need protection as recommended. This will include changing the universal access code setting to "NONE" for those libraries deemed sensitive.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert L. Caret	President
Amy Chan Abbott	Accounting Technician
Becky Adams	Analyst/Programmer, Systems and Technology
Edmund Almazan	Accounts Receivable Manager
Marlene Anderson	Bursar
Ruben Araiza	Property Clerk
Shawn Bibb	Director, Accounting and Systems and Technology
Debbie Catafi	Travel Coordinator
Jenny Chang	Accountant
Darren Coehlo	Athletics Ticket Manager
Bonnie DeMalta	Production Supervisor, University Computing and Telecommunications
Ria Diaz	Buyer
Mike Dunefsky	Manager, Systems and Technology
Jean Fong	Accounts Payable Manager
Kathy Gay	Clerical Assistant, Spartan Daily
Deana Gerhard	Collection Manager
LouAnn Griego	Administrative Analyst, Spartan Foundation
Cynthia Haliasz	Director, Budget Management
Katie Hill	Director, Information Systems
Cecilia Hoang	Administrative Analyst, Procurement Services
Pearl Howell	Payroll Director
Charmaine Johnson	CashNet Associate, Admissions and Records
Bruce Judd	Associate Vice President, University Computing and Telecommunications
Don Kassing	Vice President for Administration
Barbara Keltner	Lead Buyer
Elaine Lee	Accounting Technician
Rose Lee	Associate Vice President, Financial and Administrative Program Planning
John Loera	Interim Director, Admissions and Student Resource Center
Norma Lorigo	Director, Procurement Services
Catherine Marotta	Operations Supervisor, University Computing and Telecommunications
Nellie Militante	Payroll Technician
Michael Mok	Administrative Analyst, Athletics Business Office
Gilbert Morin	Collector
Rita Peth	Purchasing Manager
Steve Prenz	Financial Application Manager, University Computing and Telecommunications
Edward Serafica	Interim Cashiering Manager
Paul Siegel	Manager, Accounting
Rich Sol	Senior Director, University Computing and Telecommunications
Trang To	Accountant
John Twining	Senior Associate Athletic Director/Chief Financial Officer, Intercollegiate Athletics
Linda Vasquez	Associate Vice President, Business Operations
Carl Vigil	Associate Systems Analyst, University Computing and Telecommunications
Pat Wallraven	Accounting Technician, Spartan Daily

## **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.



**San José State**  
UNIVERSITY

**Office of the Vice President  
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October 15, 2001

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802

**RECEIVED**  
University Auditor

OCT 18 2001

The California State  
University

Mr. Mandel:

Please find enclosed San José State University's final response to the FISMA Audit Report Number 00-11. I want to thank you and your staff for the professional manner in which the audit was conducted. We appreciate the effort made to point out areas where our procedures or internal controls could be strengthened. We will take the necessary actions to correct these deficiencies.

Questions concerning the response can be directed to Shawn Bibb,  
Director of Accounting and Systems & Technology, at 408-924-1663.

Sincerely,

Don W. Kassing  
Vice President for Administration and Finance

c: President Robert L. Caret  
Director Shawn Bibb

San Jose State University  
FISMA  
Audit No. 00-11

**RECOMMENDATION 1**

We recommend that the campus strengthen procedures to ensure that all checks are endorsed timely.

**CAMPUS RESPONSE**

We concur. We have met with the University Athletics Office to go over the required procedures for restrictive endorsement of negotiable instruments. We have ensured that the department has a restrictive endorsement stamp and is currently being used.

**RECOMMENDATION 2**

We recommend that the campus independently verify and reconcile Spartan Daily advertising and transcript fees.

**CAMPUS RESPONSE**

We concur. The Accounting Office will work with Spartan Daily staff to establish a reconciliation process for Spartan Daily advertising. This will be in place by December 31, 2001.

The Bursar's Office will be requesting the Campus Fee Advisory Committee, (CFAC), to approve a request to charge each student a flat transcript fee at the time of registration. Payments will be posted to individual student accounts. This will allow the University to track and reconcile all transcript revenue. This proposal will be presented to CFAC in November 2001 and we anticipate approvals from the appropriate officials by February 2002.

**RECOMMENDATION 3**

We recommend that the campus strengthen procedures to assure that Spartan Daily accounts are recorded in the campus system and scheduled for collection with other accounts receivables.

**CAMPUS RESPONSE**

We concur. We will implement a policy to book Spartan Daily advertising receivables to the General Ledger at year end so as to accurately reflect the University's receivable balance for financial reporting purposes. We will also implement a process and policy whereby Spartan Daily staff will forward delinquent accounts to the Collections Department for follow up. This policies and procedures will be in place by December 31, 2001.

**RECOMMENDATION 4**

We recommend that the campus improve accounts receivable collection procedures.

**CAMPUS RESPONSE**

We concur. Programming modifications have been made to ensure that all delinquent accounts are included in the FOCUS past due reports reviewed by the collection staff. These reports will be compared to the aging reports produced by the Billing Receivable System, (BRS), as a means to verify accuracy. The Collection Manager has met with Housing Services to establish procedures to verify all housing debts are fed to BRS in a timely manner. The accounts cited in the audit were all related to conference contracts. Each of these accounts has been followed up on and is documented.

**RECOMMENDATION 5**

We recommend that the campus establish a property survey board and charge them with the responsibility of establishing policies and procedures to address the property disposition weakness identified above.

**CAMPUS RESPONSE**

We concur. We have established a Property Survey Board consisting of the Director of Procurement, the Director of Accounting and Systems & Technology and the Accounting Manager. The Property Survey Board has been charged with oversight of all disposition of state property. We will update the San Jose State University Property Manual to reflect this change and to outline the necessary procedures. This will be completed by November 30, 2001.

**RECOMMENDATION 6**

We recommend that the campus delete all identifications that are no longer used.

**CAMPUS RESPONSE**

We concur. The SJSU Security Administrator will coordinate with area managers to determine if data sets need to be copied to another ID before they are deleted. This procedure will be completed within 30 days of receipt of the revocation form. We will have this procedure in place by December 31, 2001.

**RECOMMENDATION 7**

We recommend that the campus enhance the IT DRP by developing a campus business continuity plan to sustain operations during an extended outage of data processing services. Specific items to consider include:

- An impact assessment to establish the recovery time frame for the IT DRP plan (sic) and to determine all essential equipment and services that IT will need to make available.
- Manual operating and recovery procedures for business units during an extended outage of data processing services, such as procedures for business unit recovery of up to one week's worth of lost data and procedures for entering data collected manually during the recovery of computer systems.

**CAMPUS RESPONSE**

We concur. The IT DRP already includes all essential equipment and the recovery time frame. The IT department is responsible for all major essential equipment except those servers under the purview of Systems & Technology. We will create a DRP for S&T by December 31, 2001.

SJSU already has in place a process to manually operate its business functions if there were an extended interruption to our systems. We actually have an annual event run by our Disaster Preparedness Coordinator to test the processes. We would be able to recreate lost data by collecting our diagnostics reports for the period and reentering the data.

**RECOMMENDATION 8**

We recommend that the campus restrict all programmers from update access to production copies of programs or establish a detective control to identify which programs have been changed and require management to review such changes on a regular basis.

**CAMPUS RESPONSE**

We concur. Programmers are currently not allowed access to update production programs or files. We will establish a procedure that requires management approval for program changes. We will have this procedure in place by December 31, 2001.

**RECOMMENDATION 9**

We recommend that the campus change RACF settings mentioned above regarding tape data set protection and the security command, and change the universal access code setting to NONE for the sensitive libraries.

**CAMPUS RESPONSE**

We concur. We will coordinate with the system, RACF and production technicians to determine which data sets and tapes need protection as recommended. This will include changing the universal access code setting to "NONE" for those libraries deemed sensitive.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

November 12, 2001

CHICO

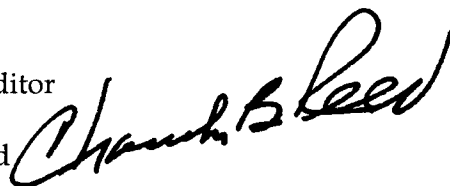
**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 00-11 on *FISMA* at  
San Jose State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of November 12, 2001, I accept the response as submitted with the draft final report on FISMA at San Jose State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR:amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Robert L. Caret, President  
Don W. Kassing, Vice President for Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS