

FISMA

**CALIFORNIA STATE UNIVERSITY,
FULLERTON**

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ABBREVIATIONS

APF	Authorized Program Facility
BFA	Business and Financial Affairs
CICS	Customer Information Control System
CSU	California State University
DRP	Disaster Recovery Plan
DSN	Data Set Name
FISMA	Financial Integrity and State Manager's Accountability Act
FRS	Financial Records System
IS	Information System
IT	Information Technology
LAIF	Local Agency Investment Fund
RACF	Resource Access Control Facility
RVARY	RACF Command
SAM	State Administrative Manual
SUAM	State University Administrative Manual
UAC	Universal Access Code

INTRODUCTION

PURPOSE

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

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Physical computer controls are in place and functioning.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

SCOPE AND METHODOLOGY

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 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 January 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.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.

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- ▶ 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.

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 University, Fullerton campus from January 16, 2001, through March 1, 2001, and made a study and evaluation of the accounting and administrative control in effect as of March 1, 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.

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

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

- ▶ Assets are safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- ▶ 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, fixed assets, and trust funds.

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, CSU Fullerton's accounting and administrative controls in effect as of March 1, 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 [7]

SATELLITE CASHIERING [7]

Cash control weaknesses were found at each of the three satellite cashiering areas visited (housing, parking, Titan Card). Strengthening controls related to cash collections and deposits decreases the risk that misappropriation of funds will not be detected.

MAIN CASHIERING [9]

Cash transfer control weaknesses were found at main cashiering. Adequate controls over cash collections and deposits decrease the risk that misappropriation of funds will not be detected.

UNCLEARED COLLECTION [11]

Uncleared collection accounts were not reviewed and cleared timely. This is a repeat finding from our prior FISMA audit. Timely clearing of collection accounts increases working capital and reduces the potential for loss of interest earnings.

PURCHASING [12]

VENDOR MASTER FILE [12]

Access to the vendor master file was not adequately controlled. Limiting access to the vendor master file decreases the risk of fraudulently misdirected payments.

PURCHASE APPROVALS [13]

Controls related to the approval of purchases were inadequate. Adequate controls related to the approval of purchases decrease the risk of inappropriate expenditures.

PERSONAL SERVICE CONTRACTS [14]

Payments for personal services to employees were processed via procurement and accounts payable. Performing adequate withholding and reporting to federal and state tax agencies reduces the risk of penalties and fines.

CASH DISBURSEMENTS [15]

CHECK-WRITING CONTROL [15]

The campus check-writing process was not adequately controlled. Adequate controls in the check-writing process reduce the risk of potential theft and misuse of state funds.

SIGNATURE CARD [15]

Signature authorization cards were not maintained for several areas. Maintenance of signature authorization cards reduces the risk of improper or unauthorized transactions.

TRAVEL EXPENSE CLAIM [16]

There was no supervisory review of travel expense claims. Proper review by the claimant's supervisor reduces the risk of inappropriate expenditures.

DISBURSEMENTS [17]

Cash disbursement functions were in need of improvement. Strengthening cash disbursement controls decreases the risk of loss from inappropriate acts.

REVOLVING FUNDS [20]

PETTY CASH [20]

Independent cash counts of petty cash and change funds did not always occur with the required frequency, and signed custodial transfer receipts were not used when there was a change in custodian. Documentation of change and petty cash fund approvals and custodial responsibilities increases employee accountability and reduces the risk of loss.

FIXED ASSETS [21]

PROPERTY SURVEY [21]

The property survey process needed improvement. An adequate property survey process increases accountability over disposal of state property.

SEGREGATION OF DUTIES [22]

Fixed asset duties were not properly segregated. Adequate separation of duties decreases the risk of errors and irregularities in fixed assets.

INFORMATION TECHNOLOGY [23]

USER ACCOUNT [23]

Security administration over Customer Information Control System (CICS) account removal needed improvement. Strengthening controls reduces the risk of inappropriate access to the system.

DISASTER RECOVERY/BUSINESS CONTINUITY PLAN [24]

The campus information technology (IT) disaster recovery plan (DRP) does not provide a sufficient level of detail planning to ensure its viability. In addition, the campus had not developed business continuity plans to enable business operations to continue in the event of an outage of data processing services. A detailed disaster recovery plan and corresponding business continuation procedures may enable the campus to restore computer operations within a reasonable time frame.

PROGRAM CHANGE CONTROL [25]

Policies and procedures over program change management are formally documented; however, existing practices do not prevent all persons with programming responsibilities from making unauthorized changes to production. This is a repeat finding from our last FISMA audit. Adequate controls over program change management reduce the risk of inappropriate system changes.

SECURITY [26]

Some mainframe security (RACF) settings should be changed to strengthen systemwide security, and many sensitive libraries are not sufficiently protected. Adequate controls reduce the risk of inappropriate access in the system.

INVESTMENTS [27]

INVESTMENT EARNINGS [27]

Investment earnings were not distributed to trust accounts. Timely distribution of investment earnings to the appropriate trust accounts enables the trust account managers to fully utilize their funds.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash control weaknesses were found at each of the three satellite cashiering areas visited (housing, parking, and Titan Card).

Housing

- ▶ The same employee who performed the cash receipt function also posted subsidiary ledgers.
- ▶ The cash receipt policy and procedures were outdated.

The director of housing indicated that the weaknesses were due to recent staff turnover.

Parking

- ▶ Daily permit parking reconciliations were not performed from May 2000 to December 2000.
- ▶ The preparer and reviewer were not signing and dating the reconciliations.

The director of parking and transportation services indicated that the issues in parking were due to staff shortage.

Titan Card

Access to Titan Card dispensers located within the library was not adequately secured.

The Titan Card is the campus ID card which also acts as the debit card and can be used for purchases on campus. Students can deposit cash into their Titan Card accounts at various Titan Card dispensers.

The Titan Card supervisor indicated that the weakness relating to the key was an oversight and will be corrected immediately.

State Administrative Manual (SAM) §8080.1 states that an appropriate level of separation of duties for agencies with automated accounting processes should be maintained. The duties performed above should be performed separately in order to maintain an adequate system of internal control.

SAM §20050 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets. This includes a plan of authorization and record-keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

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

Recommendation 1

We recommend that the campus correct the above weaknesses at the appropriate satellite cashiering operations.

Campus Response

We concur. We have addressed each of these, and will immediately submit documentation to that effect.

Housing

- Duties are now appropriately separated. The director handles cash receipts, and a staff member posts to the general and subsidiary ledgers.
- Cash receipt policy and procedures had not been updated when CASHNet was implemented in Housing. The policy and procedures were updated after the audit.

Parking

- Daily permit parking reconciliations have been current since December 2000, and receipts from May to December 2000 have been reconciled since the audit. A newly hired budget analyst for Parking and Transportation will ensure reconciliations are completed in a timely manner in the future.
- The preparer and reviewer are now maintaining a log and dating and recording their signatures when each deposit is reconciled.

Titan Card

The collecting and dispensing machines were always locked, but the keys to the machines were not secured appropriately. This problem was remedied immediately, and since that time lockbox access has been limited to Titan Card staff with the combination to the box and a key to the door.

MAIN CASHIERING

Cash transfer control weaknesses were found at main cashiering.

We noted that:

- ▶ Parking coins were left in the utility room and not in the safe.
- ▶ Parking permit checks received were not restrictively endorsed.
- ▶ Parking permit reconciliations have not been done since June 2000.

SAM §8034.1 states, in part, that agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received.

The director of student services indicated that the parking reconciliations were not done due to staff shortage. The parking permit checks were not endorsed on the day of receipt because it was the first week of the semester. She indicated that the parking coins were secured because the room was monitored with a camera, and the coins were only left for a half-hour to one hour until being picked up by courier. Furthermore, access is limited only to cashiering staff.

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

Recommendation 2

We recommend that the campus expand and improve campus cash controls at main cashiering.

Campus Response

We concur. The situations described in this finding have been corrected. Appropriate documentation will be submitted immediately.

- The responsible staff members count, bag, and seal the coins in the SFS utility room where all the coin-counting machines are currently located. This room is fully secured by a buzzer door and a Response to camera zoomed at the site, and is a restricted area which only staff members who have a key can enter.
- As reflected in the written procedure of SFS and in accordance with SAM 8034.1, all the checks are now being endorsed and deposited the same day as received. With the purpose of providing improved quality service to our students who must wait in long lines to purchase parking passes, an exception to the existing procedure was made for the first week only of the Fall and Spring semesters. To reduce the time students must stand in line for parking passes, we assigned one window exclusively for parking paid by check and accepted checks to be processed and deposited later in the week. This practice has been discontinued.
- The pertinent parking permit reconciliations were deferred as a low priority item due to the fact that the permits in stock were no longer valid or usable because the campus changed permits last summer. These reconciliations were completed in March 2001 and no discrepancies were found. The reconciliation of non-obsolete parking permit stock is scheduled to be performed once for each term, and the campus was and is in compliance with this practice.

UNCLEARED COLLECTION

Uncleared collection accounts were not reviewed and cleared timely. This is a repeat finding from our prior FISMA audit.

As of the time of our review, we identified approximately \$411,239 in collection items that had not been reviewed and cleared within 90 days. We also noted approximately \$233,108 in debit balances.

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

The director of student services indicated that due to turnover in staffing and retraining, uncleared collection research and clearing of the items were delayed.

Uncleared collections not processed in a timely manner and/or improper use of the uncleared collections account can result in error and irregularities not being detected.

Recommendation 3

We recommend that the campus:

- a. Research and clear collections in a timely manner.
- b. Determine the cause of debit balances within uncleared collection accounts and adjust them accordingly.

Campus Response

This finding has been addressed, and documentation to that effect will be submitted immediately.

In March 2001 the newly hired accountant was able to resolve and adjust the debit balance to reflect current activity only. This review and adjustment is now once again being done monthly.

Fullerton uses uncleared collections accounts for refunds, financial aid, salaries and wages collections, unidentified items, and unapplied cash. We know from interaction with other campuses that this is consistent with the way other campuses use uncleared collections accounts. However, within this consistent use of uncleared collections accounts there are some ways in which Fullerton differs from some or most other campuses.

The largest item in our uncleared collections is BR unapplied cash. This is consistent with other campuses in the BR Consortium. Several uncleared collections accounts (refunds, etc.) are necessitated by the use of the Billing and Receivables System. Not all campuses use this system.

Also, other campuses do not have direct deposit for refunds, which necessitates yet another uncleared collections account in addition to the other refund account, which is reconciled to the bank performing the service.

Fullerton uses the Titan Card as a debit card system. Other campuses do not have a debit card system. These monies flow to uncleared collections because the state is collecting the money for the convenience of the students but the Foundation is receiving the expenditures from their food services, bookstore, etc.

Clearing of some uncleared collections accounts at the time of the audit was not timely as a temporary result of staff turnover in Student Financial Services and in Titan Card. But these positions have been filled and these accounts are being cleared timely.

PURCHASING

VENDOR MASTER FILE

Access to the vendor master file was not adequately controlled.

Accounting staff responsible for generating payments had the ability to create and update vendor files.

SAM §20050 states that a plan of organization providing segregation of duties appropriate for proper safeguarding of state agency assets must be established.

The director of accounts payable indicated that she is currently reviewing the file and will restrict access to an individual outside of the accounts payable department.

When access to the vendor master file is not limited, there is an increased risk of fraudulently misdirected payments.

Recommendation 4

We recommend that the campus review and modify, where appropriate, the list of employees having access to the vendor master file.

Campus Response

We concur and have corrected this situation. Accounts Payable technicians who generate payments no longer have access to the vendor master file in APS.

PURCHASE APPROVALS

Controls related to the approval of purchases were inadequate.

We reviewed 57 purchases, covering the period from July 1999 to December 2000, and found the following:

- ▶ Three purchase orders that contain laser-printed signatures of the director of purchasing were not signed by reviewing buyer.
- ▶ An audit trail of approval was lacking for six electronic requisitions.

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 of purchasing indicated that they were oversights and will be corrected.

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

Recommendation 5

We recommend that the campus strengthen procedures to ensure:

- a. Purchase orders are signed by the reviewing buyers.
- b. Identification of the personnel approving the requisition is retained.

Campus Response

Procedures have been changed, and appropriate documentation will be submitted immediately.

- The PRS system, as part of its security setup, tracks which buyer reviewed each requisition and turned it into a purchase order. The Director of Contracts & Procurement then manually signs the original of each purchase order, which is sent to the vendor. Only the campus printed copy contains the laser-printed signature of the Director. When, on occasion, a purchase order is manually signed by someone other than the Director, the individual signing also initials the printed campus copy. So the record as to which buyer created the purchase order and who signed it is retained.
- Each of the six electronic requisitions in question was approved by an individual with approving authority for that unit/account per the PRS system security setup. By approving the requisition this individual assured that the funds were being spent appropriately. The system was merely not

displaying the name of the approver, and some departments may have more than one individual authorized to approve requisitions. To address this finding the system has now been modified to record and display the approver's name on the requisition. However, having the name print automatically does not change the fact that only the person with the appropriate authority for that unit could have approved the requisition. The system has always tracked that the operator ID of the approver is one to which such authority has been granted. Also, in addition to the approver assuring that the funds were being spent appropriately, a buyer and the Director of Contracts & Procurement also reviewed the purchase and found the transactions to be within policy.

PERSONAL SERVICE CONTRACTS

Payments for personal services to employees were processed via procurement and accounts payable.

We reviewed 57 purchases, covering the period from July 1999 to December 2000, and found three payments were issued to campus employees for personal services.

Internal Revenue Service's publication 15-A, *Employer's Supplemental Tax Guide*, indicates a person is an employee if the employer can control the details of how services are performed. An employer has to withhold necessary taxes on payments to employees and comply with payroll reporting requirements and other reports. Control of the work is one of approximately twenty factors that distinguish independent contractors from employees. Employees are not precluded from receiving payment as independent contractors if they meet the criteria. The normal expectation is that any work contracted out to an employee would be significantly different than the duties/responsibilities in that person's employment. The director of purchasing indicated that payments were processed more efficiently through procurement and accounts payable.

Not performing adequate withholding and reporting to federal and state tax agencies could result in amounts due, penalties, and fines.

Recommendation 6

We recommend that the campus establish procedures to ensure that payments for personal services to employees are reviewed by the payroll department for necessary tax reporting and withholding purposes.

Campus Response

We concur and have addressed this finding.

The campus has previously processed payments for employees as independent contractors when they have been represented as independent contractors by campus departments. However, for the last several months (and beginning prior to this audit) personal services contracts for employees have been carefully reviewed centrally, and a process for accomplishing these through Payroll has been developed and utilized when appropriate.

CASH DISBURSEMENTS

CHECK-WRITING CONTROL

The campus check-writing process was not adequately controlled.

We noted that signed checks were returned to accounts payable leads, who also process invoices for review.

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

The director of accounts payable indicated that the issue would be changed and that this procedure was for a good purpose at the time, but is no longer necessary.

When the check-writing process is not adequately controlled, accounts are subject to potential theft and misuse, resulting in the loss of state funds.

Recommendation 7

We recommend that the campus improve its check-writing process by ensuring that signed checks are not forwarded to accounts payable personnel after the checks have been signed.

Campus Response

We concur. This situation was corrected during the audit.

The laser check printing process currently in place was implemented only last fiscal year. The Accounts Payable leads temporarily reviewed the printed checks to ensure consistency of the micro-encoding and check information prior to disbursement. Review of the printed checks has been assigned to staff outside the Accounts Payable unit who do not have system access to create purchase orders or process payments.

SIGNATURE CARD

Signature authorization cards were not maintained for several areas.

We noted that the campus does not maintain signature authorization cards for:

- ▶ Travel advances.

- ▶ Departmental receiving.
- ▶ Employee transactions from human resources.
- ▶ Payroll time reports.

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 of accounts payable indicated that it was left up to the departments to ensure that proper preauthorizations were obtained on the travel advances, and proper personnel sign off on receiving at the departments.

The senior director of financial operations indicated that payroll technicians are familiar with the signatures of human resources employees. In addition, the payroll department does not monitor the signatures or time-card activity, and it was the responsibility of the departments to ensure that proper approvals were obtained.

When signature cards are not maintained, the risk of improper or unauthorized transactions is increased.

Recommendation 8

We recommend that campus document authorization of transactions through the current signature card system or through secured electronic signatures.

Campus Response

We will collect an exemplar of the signature of pertinent approving officials, and assure that this record is properly maintained. We do not plan to institute procedures whereby staff processing a particular transaction (for the thousands of transactions this would entail) would check a signature card prior to processing a transaction. A number of our transactions are processed using electronic signature technology, and we are in the process of implementing FileNet imaging and workflow with electronic signatures, which will provide additional security for the appropriate signatures.

Monthly budget and attendance reconciliations conducted by campus departmental staff are designed to identify any unauthorized expenditure for travel, goods, salary or report of time worked.

TRAVEL EXPENSE CLAIM

There was no supervisory review of travel expense claims.

We noted that the departments did not review the travel expense claims.

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 senior director of financial operations indicated that the matchup of travel authorization to travel expense claims by the accounts payable staff is adequate. When the travel expense claims are not reviewed by the claimant's supervisor, there is an increased risk that inappropriate expenditures are claimed.

Recommendation 9

We recommend that the campus develop procedures to ensure that travel expense claims are approved by the claimant's supervisor before transmittal to accounts payable staff for processing.

Campus Response

Our current process for travel authorizations and claims is very tightly controlled, and our policy and procedure for use of the Procurement Card for travel expenses was cited as a "best practice" in the Bureau of State Audit's direct vendor pay audit last year.

The systemwide CSU Travel Policy and form do not require review of claims at the department level, but rather require review for correct application of CSU travel regulations. This review is performed by Accounts Payable staff. Additionally, conference/meeting/training agendas and original receipts are required to be submitted by the traveler and are reviewed in great detail by AP staff. The campus travel authorization process requires the necessary department/division approvals prior to the trip. Department review of the claim would be a redundant step and would add no value to the process.

However, in order to address this finding, as we implement (implementation in process) FileNet imaging and workflow with electronic signatures (target date: December 2001), the authorization and claim process will be integrated and will include supervisory review of the travel claim before receipt and processing by Accounts Payable.

DISBURSEMENTS

Cash disbursement functions were in need of improvement.

We reviewed 57 purchases, covering the period from July 1999 to December 2000, and found:

- ▶ Three payments did not have original or certified original invoices.
- ▶ Thirty invoices were paid more than 45 days after receipt of the invoice.
- ▶ The service period on one invoice did not match the contract period.
- ▶ The campus procurement card was billed for one payment in which the cardholder charged the difference between the invoice amount and the purchase order amount.

- ▶ Two instances in which check requests were submitted from the departments to accounts payable without supporting documentation accompanying the check requests.

The director of accounts payable indicated that the late payments were due to the departments receiving and forwarding the invoices to accounts payable. The invoices, which were not originals, were oversights and contrary to procedures. With regards to the payments without supporting documentation, she indicated that her staff relies on the departments to have the appropriate approval on the check requests.

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

CSU coded memorandum, AD 99-07, addresses the Prompt Payment Act (Government Code §927) and states, “Although the CSU is not obligated to make interest penalty payments as required by the Act, it is still the policy of the CSU to pay vendors as expeditiously as possible.”

The general standard for prompt payment by other state agencies as indicated in SAM §8474 et seq. is within 45 calendar days of the receipt of an invoice. No penalties are calculated on disputed amounts if the vendor is notified within 15 days of the receipt of an invoice.

When cash disbursement controls are not adequate, there is an increased risk of loss from inappropriate acts, and jeopardizes the direct vendor pay program.

Recommendation 10

We recommend that the campus implement procedures to ensure that the above control weaknesses be corrected.

Campus Response

We have addressed the issues cited in this finding.

- The invoices not certified as original and the payment in which the service period on the invoice did not match the contract period were training issues, not systemic, and have since been remedied.
- The payment in which a Procurement Card holder charged the difference (\$38.09) between the invoice amount and the purchase order amount to the Procurement Card was a minor problem, both in materiality and in the fact that the item purchased was not a prohibited purchase. Procurement Card policy and procedures now indicate that only one form of payment per purchase should be used.
- The two departments which were responsible for keeping their own documentation supporting check requests have been submitting such documentation with the check request to Accounts

Payable since this issue was raised during the audit. And the supporting documentation for these two particular check requests was on file in those locations and has been provided to the auditor.

- In fact, 27 invoices in the auditor's sample involved payments which were issued more than 45 days after the date of the invoice; 3 additional invoices were paid in under 45 days but were recorded otherwise by the auditor in error.

Several invoices were not paid timely for good reason, e.g., in one case the vendor invoiced long before the service was completed, and in one case a public works invoice could not be signed off by the project manager until concerns were resolved.

Payment of several other invoices was delayed as a result of the invoices not being approved timely by campus departments. When the invoice is for a service or purchase which does not go through central Receiving but instead must be verified as received or complete by the department which purchased the service or item, delays in payment can result. We have developed a new process for the short term which should substantially reduce this problem. Additionally, as part of the FileNet imaging and workflow system we are currently implementing, we will be streamlining the process by which invoices are sent to departments and returned by them to Accounts Payable, which will reduce the time to payment on such invoices.

We have done a report from APS for the last four years and found that average time from invoice date to payment date, excluding travel reimbursements, EWP reader payments, and the like, which are processed more quickly, was as follows: 1997/98 = 32 days, 1998/99 = 35 days, 1999/2000 = 32 days, and 2000/01 = 36 days, all well within the 45 day guideline even counting from invoice date, and counting from received date would further shorten the time to payment. For about a year and a half now we have been tracking average time from the date the invoice is received in Accounts Payable to payment date, and that figure is only 11 calendar days.

From all this we conclude that most invoices are processed timely for payment. And we know from prior audits and reviews that Fullerton's track record has in no way jeopardized the direct vendor pay program.

REVOLVING FUNDS

PETTY CASH

Independent cash counts of petty cash and change funds did not always occur with the required frequency, and signed custodial transfer receipts were not used when there was a change in custodian.

We found that 11 of the 16 petty cash and change funds were not independently counted and verified within the required frequency. In addition, there were 12 changes in custodian without preparation of transfer receipts.

SAM §8111.2 requires an employee, other than the custodian of the petty cash or change fund, to count each fund in accordance with the prescribed schedule and report them to the accounting office. In addition, transfers of fund custody require that: (a) a personal audit of the fund is made by the employees directly concerned and (b) a receipt has been given by the newly assigned custodian to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting officer.

The senior director of financial operations indicated that the cash counts did not occur due to the turnover of an employee.

Internal controls over cash funds are compromised when independent cash counts are not conducted timely and changes in fund custodians are not properly documented.

Recommendation 11

We recommend that the campus implement procedures to ensure that:

- a. The cash funds are counted as frequently as required.
- b. Transfer receipts are utilized when there is a change in custodian.

Campus Response

We concur. This finding has been corrected, and appropriate documentation will be submitted immediately.

This task was assigned to an employee no longer in the employ of the university. During the audit this responsibility was reassigned to Accounting Services. As of February 2001 all audits had been brought current and remain current. No cash discrepancies were found. The largest petty cash/change fund is that in the central cashiers office, and that was always counted daily.

FIXED ASSETS

PROPERTY SURVEY

The property survey process needed improvement.

We noted that:

- ▶ Survey reports were not signed and reviewed timely.
- ▶ Items were discarded without survey process.
- ▶ Lost/stolen properties were not reported from public safety to the property coordinator timely.

SAM §3520.2 indicates 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. To the extent possible, there will be a sufficient number of members on the board to ensure that both business management and program responsibilities will be represented. At least two members of the property survey board will approve all property survey reports and any transfers of location of equipment.

SAM §3520.5 indicates, in part, that a properly executed property survey report must be completed when disposing of state-owned property.

SAM §8643 requires the preparation of a property survey report whenever property is lost, stolen, or destroyed and an adjustment to the property accounting records.

The property coordinator indicated that the campus departments were not reporting the surveyed items timely, and he would like to speed up the process so that the information in his inventory ledger is accurate.

Inadequate property surveys reduce accountability over disposal of state property.

Recommendation 12

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

- ▶ Survey reports are signed and reviewed timely.
- ▶ Lost/stolen property reports are forwarded to the property coordinator timely.
- ▶ Survey reports are properly executed before asset disposition.

Campus Response

We concur with this finding, and will develop and implement policies ensuring the property survey board reviews property activity regularly, lost/stolen property reports are forwarded to the fixed asset coordinator timely, and survey reports are properly executed before asset disposition. Target implementation date: October 2001.

SEGREGATION OF DUTIES

Fixed asset duties were not properly segregated.

We noted that the same person surveys property (without department source documents) and maintains the property inventory ledger.

SAM §20050 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.

The property coordinator indicated that the campus departments were not reporting surveyed items timely, and he would like to speed up the process to accurately present the ledgers.

Inadequate separation of duties increases the risk of errors and irregularities in fixed assets.

Recommendation 13

We recommend that the campus segregate duties in property dispositions so involvement of more than one person is required and approval by the originating department is documented.

Campus Response

We concur with this finding and have corrected this situation. The person who maintains the property inventory ledger no longer independently surveys property.

INFORMATION TECHNOLOGY

USER ACCOUNT

Security administration over Customer Information Control System (CICS) account removal needed improvement.

Mainframe identifications used for the Financial Records System (FRS) application have 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 director of business systems stated that the campus had recently changed the way that users access the system, eliminating the need for mainframe CICS identifications, but that the old identifications had not been removed from the system.

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

Recommendation 14

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

Campus Response

We concur with this finding and have resolved this situation.

The campus already had a process in place of RACF cleanup done on an annual basis each fall to delete RACF userids that have not been used in the past year.

Additionally, there are four areas on campus that have RACF authority to create/delete user accounts on the IBM mainframe, and each of these areas already had or now has a process for deleting all identifications that are no longer used: 1) Admissions & Records—SIS+ CICS users. Admissions & Records requires on an annual basis that all supervisors of SIS+ users renew their approval for that

SIS+ user to maintain his/her account. Any non-renewed SIS+ accounts are deleted by Admissions & Records on an annual basis. 2) Business & Financial Affairs—FRS CICS users. BFA Systems receives a list of separated employees captured through the property clearance process, and reviews the log and deletes the online operator IDs from FRS. If the employee has other system IDs BFA Systems notifies the respective programmer for that system to delete the ID. 3) Business & Financial Affairs—CASHNet. An annual ID renewal process is required for all CASHNet users. 4) Information Technology—TSO users. The population of TSO users is a very small number, and we revoke TSO privileges for employees when they terminate their employment with the University.

DISASTER RECOVERY/BUSINESS CONTINUITY PLAN

The campus information technology (IT) disaster recovery plan (DRP) does not provide a sufficient level of detail planning to ensure its viability. In addition, the campus had not developed business continuity plans to enable business operations to continue in the event of an 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.

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

The chief information technology officer stated that although a contract was in place to acquire the necessary hardware, detailed policies and procedures had not been completed.

Without a detailed DRP and corresponding business continuation procedures, the campus may not be able to restore computer operations within a reasonable time frame.

Recommendation 15

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

- a. An impact assessment to establish recovery time frame for the IT DRP plan and to determine all essential equipment and services that IT will need to make available.

- b. Manual operating and recovery procedures for business units during an extended outage of data processing services.

Campus Response

We concur with this recommendation and will take steps to develop a campus business continuity plan as described above. Target date: December 2001.

PROGRAM CHANGE CONTROL

Policies and procedures over program change management are formally documented; however, existing practices do not prevent all persons with programming responsibilities from making unauthorized changes to production. This is a repeat finding from our last FISMA audit.

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 director of administrative computing and the director of business systems both stated that given the limited number of information system (IS) personnel and size of the IS department, 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.

Since programmers have the capability to make changes directly to production copies of programs, management cannot be assured that all changes made are authorized and, consequently, that internal controls are not compromised.

Recommendation 16

We recommend that if all programmers cannot effectively be restricted from update access to production copies of programs, a detective control reflecting programs that have been changed be produced and reviewed by management on a regular basis.

Campus Response

We concur with this recommendation and have developed an additional control.

It is already easily possible to sort the source library directories by change date and come up with a list of programs changed by date, including the TSO userid of the programmer who changed the program. In addition, for SIS+ we have created an Excel file stored on our server to which programmers will add an entry each time they modify a program. The Excel file contains the name of the program changed, the date changed, the programmer who changed the program, and the task number associated with the change. The task number cross references to an existing Excel file sorted by task number that

identifies every IT administrative computing change request, purpose, programmer assigned, and date completed.

SECURITY

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

Specifically, we noted:

- ▶ Protect All is not in effect, which allows the creation of data sets that are not protected by RACF.
- ▶ Tape DSN is not in effect, which enables protection of data sets stored on tape.
- ▶ RVARV password is set as the default, which would allow anyone with knowledge of the default password to turn off RACF security.

Many RACF authorized libraries are not RACF protected, which could be exploited to gain unauthorized access to system resources.

All users with read access to high level of “SYS1” can reveal sensitive information about the system.

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 operating systems manager stated that the existing parameter settings had been in place for several years and that the excessive access to authorized program facility (APF) libraries was the result of a recent version upgrade of CICS.

If Protect All is not in effect, then programs or data files can be created that will not be protected by RACF. Since the campus uses standard naming conventions for most programs and files, then the likelihood of an extensive number of unprotected resources is slight. If tape data set name protection is not enabled, then information stored on magnetic tape will not be protected. The APF is one method to designate unlimited access privileges on a mainframe computer. Accordingly, all datasets that are included in the APF authorization list should be restricted.

Recommendation 17

We recommend that:

- a. The RACF setting regarding Protect All, tape data set protection, and RVARV be changed to provide stronger security.
- b. For APF and the SYS1 libraries, change the universal access code (UAC) setting to READ or NONE in order to reduce the risk of unauthorized modifications or disclosure.

Campus Response

We concur with this recommendation and have taken the following actions:

- The RVERY change was completed in February 2001.
- The tape data set protection change will be completed by October 2001.
- The Protect All change will require one year to complete due to its severe impact on the system and the fact that it must be implemented in phases. Target date: August 2002. The UAC setting change will be completed by September 2001.

INVESTMENTS

INVESTMENT EARNINGS

Investment earnings were not distributed to trust accounts.

Investment earnings had not been allocated back to the respective trust accounts since July 1, 2000. The funds were held in the general ledger investment pool account.

State University Administrative Manual (SUAM) §3824 states that the campus president may define the rules for distribution of interest income, except where interest income is defined in instruments such as a bond resolution, trust project agreement, and federal funding contract. Campus procedures, *Completion of the Trust Fund Agreement and Trust Annual Budget*, states that excess cash in trust funds are locally invested and interest income is posted to the trust accounts.

The accounting officer indicated that the earnings were not distributed to the accounts due to a computer-programming problem.

By not distributing investment earnings back to the appropriate trust accounts, the trust account managers are not able to fully utilize their funds.

Subsequent to our audit visit, the campus provided copies of journal entries dated March 30, 2001, and April 3, 2001, that documented allocation of investment interest to trust accounts retroactive to July 2000.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Milton Gordon	President
Julie Allen	Procurement Card Technician
Elahe Amani	Director of Student Services
Bill Barrett	Acting Vice President for Administration
Karen Batten	Payroll Supervisor
John Beisner	Advisor to the President
Paulette Blumberg	Associate Director, Parking and Transportation Services
E. Sue Boeltl	Senior Director, Financial Operations
Ruby Cook	Coordinator, Central Support Services
Alicia DeGuzman	Accountant
Marilou Encina	Payroll Supervisor
Linda Erickson	Senior Director, Financial Management
Flora Farzad	Accounting Officer
Joseph Ferrer	Director of Parking and Transportation Services
Beth Hurd	Manager, Titan Card Program
Kathy Ip	Accountant
Vennita Jackson	Accounts Payable Lead
Terry Jarmon	Property Coordinator
Susan Kachner	Director of Administrative Computing
Melody Kojima	Buyer
Alexander Landeros	Operating Systems Manager
Sue Lasswell	IT Manager, Titan Card
Mike Marcinkevicz	Network Manager
Sherri Newcomb	Chief Financial Officer
Lo-An Nguyen	Accounting Technician, Titan Card
Linda Osburn	Accounts Payable Lead
Michael Parker	Chief Information Technology Officer
Jan Pasquale	Parking Supervisor
Kathy Perkins	Computer Operations Supervisor
Mark Robbins	Director, Purchasing
Gaye Rogers	Accountant
Glen Shiery	Network Specialist
Thom Sloan	Director, Student Health Center
Darlene Stevenson	Director of Housing
Keiko Takahashi	Director, Business Systems
Irma Torres-Garcia	Supervisor of Cashiering
Reginald Turnbow	Budget Analyst, Parking and Transportation Services
Bobbie Wallstrom	Manager, Accounts Receivable
Anna Wang	Accountant
May Wong	Director, Accounts Payable

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



Office of the President
(714) 278-3456 / Fax (714) 278-2649

RECEIVED
University Auditor

AUG 27 2001

**The California State
University**

TO: Larry Mandel
University Auditor

DATE: 24 August 2001

FROM: Milton A. Gordon
President 

SUBJECT: Campus Response to Recommendations of Audit Report Number
00-12, FISMA at California State University, Fullerton

Thank you for the audit report of your office's review of Financial Integrity and State Manager's Accountability Act (FISMA) requirements at California State University, Fullerton.

Appropriate University administrative officers have reviewed the subject report. Our specific comments and/or planned corrective actions concerning the audit recommendations are attached.

copies: Sherri L. Newcomb, Chief Financial Officer
Bill Barrett, Acting Vice President, Administration
Mike Parker, Chief Information/Technology Officer
Robert L. Palmer, Vice President for Student Affairs
E. Sue Boeltl, Senior Director, Financial Operations

Response to FISMA Audit Report 00-12
24 August 2001

RECOMMENDATION 1

We recommend that the campus correct the above weaknesses at the appropriate satellite cashiering operations.

CAMPUS RESPONSE

We concur. We have addressed each of these, and will immediately submit documentation to that effect.

Housing

- Duties are now appropriately separated. The director handles cash receipts, and a staff member posts to the general and subsidiary ledgers.
- Cash receipt policy and procedures had not been updated when CASHNet was implemented in Housing. The policy and procedures were updated after the audit.

Parking

- Daily permit parking reconciliations have been current since December 2000, and receipts from May to December 2000 have been reconciled since the audit. A newly hired budget analyst for Parking and Transportation will ensure reconciliations are completed in a timely manner in the future.
- The preparer and reviewer are now maintaining a log and dating and recording their signatures when each deposit is reconciled.

Titan Card

The collecting and dispensing machines were always locked, but the keys to the machines were not secured appropriately. This problem was remedied immediately, and since that time lockbox access has been limited to Titan Card staff with the combination to the box and a key to the door.

RECOMMENDATION 2

We recommend that the campus expand and improve campus cash controls at main cashiering.

CAMPUS RESPONSE

We concur. The situations described in this finding have been corrected. Appropriate documentation will be submitted immediately.

- The responsible staff members count, bag, and seal the coins in the SFS utility room where all the coin-counting machines are currently located. This room is fully secured by a buzzer door and a Response to camera zoomed at the site, and is a restricted area which only staff members who have a key can enter.
- As reflected in the written procedure of SFS and in accordance with SAM 8034.1, all the checks are now being endorsed and deposited the same day as received. With the purpose of providing improved quality service to our students who must wait in long lines to purchase parking passes, an exception to the existing procedure was made for the first week only of the Fall and Spring semesters. To reduce the time students must stand in line for parking passes, we assigned one

window exclusively for parking paid by check and accepted checks to be processed and deposited later in the week. This practice has been discontinued.

- The pertinent parking permit reconciliations were deferred as a low priority item due to the fact that the permits in stock were no longer valid or usable because the campus changed permits last summer. These reconciliations were completed in March 2001 and no discrepancies were found. The reconciliation of non-obsolete parking permit stock is scheduled to be performed once for each term, and the campus was and is in compliance with this practice.

RECOMMENDATION 3

We recommend that the campus:

- Research and clear collections in a timely manner.
- Determine the cause of debit balances within uncleared collection accounts and adjust them accordingly.

CAMPUS RESPONSE

This finding has been addressed, and documentation to that effect will be submitted immediately.

In March 2001 the newly hired accountant was able to resolve and adjust the debit balance to reflect current activity only. This review and adjustment is now once again being done monthly.

Fullerton uses uncleared collections accounts for refunds, financial aid, salaries and wages collections, unidentified items, and unapplied cash. We know from interaction with other campuses that this is consistent with the way other campuses use uncleared collections accounts. However, within this consistent use of uncleared collections accounts there are some ways in which Fullerton differs from some or most other campuses.

The largest item in our uncleared collections is BR unapplied cash. This is consistent with other campuses in the BR Consortium. Several uncleared collections accounts (refunds, etc.) are necessitated by the use of the Billing and Receivables System. Not all campuses use this system.

Also, other campuses do not have direct deposit for refunds, which necessitates yet another uncleared collections account in addition to the other refund account, which is reconciled to the bank performing the service.

Fullerton uses the Titan Card as a debit card system. Other campuses do not have a debit card system. These monies flow to uncleared collections because the state is collecting the money for the convenience of the students but the Foundation is receiving the expenditures from their food services, bookstore, etc.

Clearing of some uncleared collections accounts at the time of the audit was not timely as a temporary result of staff turnover in Student Financial Services and in Titan Card. But these positions have been filled and these accounts are being cleared timely.

RECOMMENDATION 4

We recommend that the campus review and modify, where appropriate, the list of employees having access to the vendor master file.

CAMPUS RESPONSE

We concur and have corrected this situation. Accounts Payable technicians who generate payments no longer have access to the vendor master file in APS.

RECOMMENDATION 5

We recommend that the campus strengthen procedures to ensure:

- a. Purchase orders are signed by the reviewing buyers.
- b. Identification of the personnel approving the requisition is retained.

CAMPUS RESPONSE

Procedures have been changed, and appropriate documentation will be submitted immediately.

- The PRS system, as part of its security setup, tracks which buyer reviewed each requisition and turned it into a purchase order. The Director of Contracts & Procurement then manually signs the original of each purchase order, which is sent to the vendor. Only the campus printed copy contains the laser-printed signature of the Director. When, on occasion, a purchase order is manually signed by someone other than the Director, the individual signing also initials the printed campus copy. So the record as to which buyer created the purchase order and who signed it is retained.
- Each of the six electronic requisitions in question was approved by an individual with approving authority for that unit/account per the PRS system security setup. By approving the requisition this individual assured that the funds were being spent appropriately. The system was merely not displaying the name of the approver, and some departments may have more than one individual authorized to approve requisitions. To address this finding the system has now been modified to record and display the approver's name on the requisition. However, having the name print automatically does not change the fact that only the person with the appropriate authority for that unit could have approved the requisition. The system has always tracked that the operator ID of the approver is one to which such authority has been granted. Also, in addition to the approver assuring that the funds were being spent appropriately, a buyer and the Director of Contracts & Procurement also reviewed the purchase and found the transactions to be within policy.

RECOMMENDATION 6

We recommend that the campus establish procedures to ensure that payments for personal services to employees are reviewed by the payroll department for necessary tax reporting and withholding purposes.

CAMPUS RESPONSE

We concur and have addressed this finding.

The campus has previously processed payments for employees as independent contractors when they have been represented as independent contractors by campus departments. However, for the last several months (and beginning prior to this audit) personal services contracts for employees have been carefully reviewed centrally, and a process for accomplishing these through Payroll has been developed and utilized when appropriate.

RECOMMENDATION 7

We recommend that the campus improve its check-writing process by ensuring that signed checks are not forwarded to accounts payable personnel after the checks have been signed.

CAMPUS RESPONSE

We concur. This situation was corrected during the audit.

The laser check printing process currently in place was implemented only last fiscal year. The Accounts Payable leads temporarily reviewed the printed checks to ensure consistency of the micro-encoding and check information prior to disbursement. Review of the printed checks has been assigned to staff outside the Accounts Payable unit who do not have system access to create purchase orders or process payments.

RECOMMENDATION 8

We recommend that current signature cards be kept on file and reviewed prior to disbursement of funds, acceptance of reports, or approval of transactions.

CAMPUS RESPONSE

We will collect an exemplar of the signature of pertinent approving officials, and assure that this record is properly maintained. We do not plan to institute procedures whereby staff processing a particular transaction (for the thousands of transactions this would entail) would check a signature card prior to processing a transaction. A number of our transactions are processed using electronic signature technology, and we are in the process of implementing FileNet imaging and workflow with electronic signatures, which will provide additional security for the appropriate signatures.

Monthly budget and attendance reconciliations conducted by campus departmental staff are designed to identify any unauthorized expenditure for travel, goods, salary or report of time worked.

RECOMMENDATION 9

We recommend that the campus develop procedures to ensure that travel expense claims are approved by the claimant's supervisor before transmittal to accounts payable staff for processing.

CAMPUS RESPONSE

Our current process for travel authorizations and claims is very tightly controlled, and our policy and procedure for use of the Procurement Card for travel expenses was cited as a "best practice" in the Bureau of State Audit's direct vendor pay audit last year.

The systemwide CSU Travel Policy and form do not require review of claims at the department level, but rather require review for correct application of CSU travel regulations. This review is performed by Accounts Payable staff. Additionally, conference/meeting/training agendas and original receipts are required to be submitted by the traveler and are reviewed in great detail by AP staff. The campus travel authorization process requires the necessary department/division approvals prior to the trip. Department review of the claim would be a redundant step and would add no value to the process.

However, in order to address this finding, as we implement (implementation in process) FileNet imaging and workflow with electronic signatures (target date: December 2001), the authorization and claim process will be integrated and will include supervisory review of the travel claim before receipt and processing by Accounts Payable.

RECOMMENDATION 10

We recommend that the campus implement procedures to ensure that the above control weaknesses be corrected.

CAMPUS RESPONSE

We have addressed the issues cited in this finding.

- The invoices not certified as original and the payment in which the service period on the invoice did not match the contract period were training issues, not systemic, and have since been remedied.
- The payment in which a Procurement Card holder charged the difference (\$38.09) between the invoice amount and the purchase order amount to the his Procurement Card was a minor problem, both in materiality and in the fact that the item purchased was not a prohibited purchase. Procurement Card policy and procedures now indicate that only one form of payment per purchase should be used.
- The two departments which were responsible for keeping their own documentation supporting check requests have been submitting such documentation with the check request to Accounts Payable since this issue was raised during the audit. And the supporting documentation for these two particular check requests was on file in those locations and has been provided to the auditor.
- In fact, 27 invoices in the auditor's sample involved payments which were issued more than 45 days after the date of the invoice; 3 additional invoices were paid in under 45 days but were recorded otherwise by the auditor in error.

Several invoices were not paid timely for good reason, e.g., in one case the vendor invoiced long before the service was completed, and in one case a public works invoice could not be signed off by the project manager until concerns were resolved.

Payment of several other invoices was delayed as a result of the invoices not being approved timely by campus departments. When the invoice is for a service or purchase which does not go through central Receiving but instead must be verified as received or complete by the department which purchased the service or item, delays in payment can result. We have developed a new process for the short term which should substantially reduce this problem. Additionally, as part of the FileNet imaging and workflow system we are currently implementing, we will be streamlining the process by which invoices are sent to departments and returned by them to Accounts Payable, which will reduce the time to payment on such invoices.

We have done a report from APS for the last four years and found that average time from invoice date to payment date, excluding travel reimbursements, EWP reader payments, and the like, which are processed more quickly, was as follows: 1997/98 = 32 days, 1998/99 = 35 days, 1999/2000 = 32 days, and 2000/01 = 36 days, all well within the 45 day guideline even counting from invoice date, and counting from received date would further shorten the time to payment. For about a year and a half now we have been tracking average time from the date the invoice is received in Accounts Payable to payment date, and that figure is only 11 calendar days.

From all this we conclude that most invoices are processed timely for payment. And we know from prior audits and reviews that Fullerton's track record has in no way jeopardized the direct vendor pay program.

RECOMMENDATION 11

We recommend that the campus implement procedures to ensure that:

- a. The cash funds are counted as frequently as required.
- b. Transfer receipts are utilized when there is a change in custodian.

CAMPUS RESPONSE

We concur. This finding has been corrected, and appropriate documentation will be submitted immediately.

This task was assigned to an employee no longer in the employ of the university. During the audit this responsibility was reassigned to Accounting Services. As of February 2001 all audits had been brought current and remain current. No cash discrepancies were found. The largest petty cash/change fund is that in the central cashiers office, and that was always counted daily.

RECOMMENDATION 12

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

- Survey reports are signed and reviewed timely.
- Lost/stolen property reports are forwarded to the property coordinator timely.
- Survey reports are properly executed before asset disposition.

CAMPUS RESPONSE

We concur with this finding, and will develop and implement policies ensuring the property survey board reviews property activity regularly, lost/stolen property reports are forwarded to the fixed asset coordinator timely, and survey reports are properly executed before asset disposition. Target implementation date: October 2001.

RECOMMENDATION 13

We recommend that the campus segregate duties in property dispositions so involvement of more than one person is required and approval by the originating department is documented.

CAMPUS RESPONSE

We concur with this finding and have corrected this situation. The person who maintains the property inventory ledger no longer independently surveys property.

RECOMMENDATION 14

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

CAMPUS RESPONSE

We concur with this finding and have resolved this situation.

The campus already had a process in place of RACF cleanup done on an annual basis each fall to delete RACF userids that have not been used in the past year.

Additionally, there are four areas on campus that have RACF authority to create/delete user accounts on the IBM mainframe, and each of these areas already had or now has a process for deleting all identifications that are no longer used: 1) Admissions & Records—SIS+ CICS users. Admissions & Records requires on an annual basis that all supervisors of SIS+ users renew their approval for that SIS+ user to maintain his/her account. Any non-renewed SIS+ accounts are deleted by Admissions & Records on an annual basis. 2) Business & Financial Affairs--FRS CICS users. BFA Systems receives a list of separated employees captured through the property clearance process, and reviews the log and deletes the online operator IDs from FRS. If the employee has other system IDs BFA Systems notifies the respective programmer for that system to delete the ID. 3) Business & Financial Affairs—CASHNet. An annual ID renewal process is required for all CASHNet users. 4) Information Technology—TSO users. The population of TSO users is a very small number, and we revoke TSO privileges for employees when they terminate their employment with the University.

RECOMMENDATION 15

We recommend that the campus enhance the IT DRP by adding detailed procedures and develop 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 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.

CAMPUS RESPONSE

We concur with this recommendation and will take steps to develop a campus business continuity plan as described above. Target date: December 2001.

RECOMMENDATION 16

We recommend that if all programmers cannot effectively be restricted from update access to production copies of programs, a detective control reflecting programs that have been changed be produced and reviewed by management on a regular basis.

CAMPUS RESPONSE

We concur with this recommendation and have developed an additional control.

It is already easily possible to sort the source library directories by change date and come up with a list of programs changed by date, including the TSO userid of the programmer who changed the program. In addition, for SIS+ we have created an Excel file stored on our server to which programmers will add an entry each time they modify a program. The Excel file contains the name of the program changed, the date changed, the programmer who changed the program, and the task number associated with the change. The task number cross references to an existing Excel file sorted by task number that identifies every IT administrative computing change request, purpose, programmer assigned, and date completed.

RECOMMENDATION 17

We recommend that:

- a. The RACF setting regarding Protect All, tape data set protection, and RVARY be changed to provide stronger security.

- b. For APF and the SYS1 libraries, change the universal access code (UAC) setting to READ or NONE in order to reduce the risk of unauthorized modifications or disclosure.

CAMPUS RESPONSE

We concur with this recommendation and have taken the following actions:

- The RVARY change was completed in February 2001.
- The tape data set protection change will be completed by October 2001.
- The Protect All change will require one year to complete due to its severe impact on the system and the fact that it must be implemented in phases. Target date: August 2002. The UAC setting change will be completed by September 2001.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

September 10, 2001

CHICO

MEMORANDUM

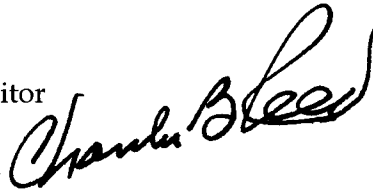
DOMINGUEZ HILLS

TO: Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 00-12 on *FISMA* at
California State University, Fullerton

LONG BEACH

LOS ANGELES

In response to your memorandum of September 10, 2001, I accept the response as submitted with the draft final report on *FISMA* at California State University, Fullerton.

MARITIME ACADEMY

MONTEREY BAY

NORTHBRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

cc: Dr. Milton A. Gordon, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS