

**FISMA**

**SAN DIEGO STATE UNIVERSITY**

**Report Number 01-02**

**August 27, 2001**

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## **ABBREVIATIONS**

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
IT	Information Technology
SAM	State Administrative Manual
SUAM	State University Administrative Manual
SUF	State University Fee

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## INTRODUCTION

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### PURPOSE

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

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

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### SCOPE AND METHODOLOGY

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 1999-2000 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was July 2000 to 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 the San Diego State University campus from February 19, 2001, through April 20, 2001, and made a study and evaluation of the accounting and administrative control in effect as of April 20, 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 Diego State University'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 should improve its internal controls over the following areas: trust funds, information technology (vendor access, security administration, and disaster recovery planning), and reconciliations.

In our opinion, except for the effect of the weaknesses described above, the San Diego State University system of accounting and administrative control in effect as of April 20, 2001, taken as a whole, was sufficient to meet the objectives stated above.

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

## **EXECUTIVE SUMMARY**

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

### **CASH RECEIPTS [6]**

#### **APPLICATION FEE RECONCILIATION [6]**

The campus was not reconciling application fees collected to the number of applications received. Properly reconciling fee collections reduces the risk of errors and irregularities occurring and going undetected.

#### **STATE UNIVERSITY FEE RECONCILIATIONS [7]**

The state university fee (SUF) reconciliations were not signed and dated by the preparer and reviewer. Performing timely reconciliations reduces the risk of errors and irregularities going undetected for extended periods.

### **REVOLVING FUND RECONCILIATION [7]**

The preparer and reviewer did not date revolving fund reconciliations; as a result, the timeliness of preparation could not be determined. Properly documenting the timing of revolving fund reconciliations strengthens accountability for the timely detection of errors and irregularities.

### **PAYROLL/PERSONNEL [8]**

Overtime authorizations were not documented in advance of the work performed. Documenting preauthorizations of overtime reduces the risk of errors in overtime payments.

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

Property reconciliations were not prepared timely and were not signed and dated by a reviewer. Completing property reconciliations in a timely manner decreases the risk that errors and irregularities will not be detected.

## **INFORMATION TECHNOLOGY [9]**

### **USER ACCOUNT DELETION/ID REMOVAL (ALL APPLICATIONS) [9]**

Security administration of user access required improvement to ensure that all persons having responsibility for removal of user access privileges were notified in a timely manner. Timely removal of user access privileges upon change in employment status reduces campus exposure to risk from unauthorized access.

### **DISASTER RECOVERY/BUSINESS CONTINUITY PLAN [10]**

The existing disaster recovery plan did not appear to contain sufficient information to ensure that data processing services could be recovered in a timely manner, and the plan had not been tested. Ensuring that the disaster recovery plan is adequately documented and sufficiently addresses critical recovery areas will enable the campus to restore computer operations within a reasonable time frame.

### **PROGRAM CHANGE CONTROL (CASHNET) [13]**

Vendor access privileges to CashNet for system updates were not monitored or controlled. Monitoring and controlling vendor access privileges provide assurances that system updates are tracked and internal controls are not compromised.

## **TRUST FUNDS [14]**

Trust agreements were not in place for all trust accounts, and trust disbursements were not always properly authorized. Documenting trust duties and responsibilities in writing to be followed by all parties reduces misunderstandings and the potential for improper fund management and unauthorized disbursements.

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

### **CASH RECEIPTS**

#### **APPLICATION FEE RECONCILIATION**

The campus was not reconciling application fees collected to the number of applications received.

For the spring 1999, fall 1999, and spring 2000 terms, the campus's application fee reconciliation consisted of matching application fee receipting records in the cashiering office with financial accounting entries—essentially, the same records. A proper reconciliation should be based on the number of admission applications received multiplied by the amount of the fee adjusted for application fee waivers approved and compared against actual application fee revenue received.

State University Administrative Manual (SUAM) §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year and maintained on file by each campus.

The manager of cashiering services, who is responsible for the preparation of the application fee reconciliation, stated that admissions applications are received not only in hardcopy, but also electronically via the Internet and at several different locations at the campus. This has complicated the process of accounting for the number of admissions applications received and processed.

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

#### **Recommendation 1**

We recommend that the campus reconcile application fees against the number of applications received less approved fee waivers for each academic term.

#### **Campus Response**

We concur. The campus concurs and has taken steps to ensure that these reconciliations are completed.

A Student Information Request Form was submitted to SIMS/R Operations requesting an Application Fee Status Report. This report provides the University Cashiers Office with the necessary information regarding paid applications, fee waivers and unaccommodated (unpaid) applications that will allow for a meaningful reconciliation.

A reconciliation was performed for the CSUMentor (electronic) applications for the period January 2000 through December 2000. During the Fall 2000, electronic applications accounted for 35 percent of all applications received. For Fall 2001 semester, the number of electronic applications has grown to 18,643, which is 47 percent of the total received. We are currently in the process of completing the

Spring 2001 reconciliation for all applications. Reconciliations through Spring 2001 will be completed by the end of October 2001.

## **STATE UNIVERSITY FEE RECONCILIATIONS**

The state university fee (SUF) reconciliations were not signed and dated by the preparer and reviewer.

State Administrative Manual (SAM) §7908 states that all reconciliations will show the names of the preparer and the reviewer. In addition, the dates prepared and reviewed will be shown on the reconciliation.

The systems coordinator for student financial services, who is responsible for the preparation of SUF reconciliations, indicated that she was not aware of the requirement to sign and date the reconciliations and had not forwarded them to be signed and dated by a reviewer.

Not performing timely reconciliations can result in errors and irregularities going undetected for an extended period.

### **Recommendation 2**

We recommend that the campus establish procedures to ensure that the SUF reconciliation is signed and dated by the preparer and reviewer.

### **Campus Response**

We concur. The campus will ensure that the SUF reconciliation report is signed and dated by both the preparer and the reviewer.

## **REVOLVING FUND RECONCILIATION**

The preparer and reviewer did not date revolving fund reconciliations; as a result, the timeliness of preparation could not be determined.

SAM §7908 states that all reconciliations will show the name of the preparer and the reviewer, as well as the dates prepared and reviewed.

The accountant responsible for reviewing the revolving reconciliations indicated that the accepted date of preparation and review is the date at which the report is computer generated.

Not performing timely reconciliations can result in errors and irregularities going undetected for an extended period.

### **Recommendation 3**

We recommend that the campus establish procedures to ensure that the revolving fund reconciliation is signed and dated by the preparer and reviewer.

### **Campus Response**

We concur. The campus has taken steps to ensure that both the preparer and the reviewer clearly indicate the date next to their initials or their initials next to the time-stamped date on the document.

## **PAYROLL/PERSONNEL**

Overtime authorizations were not documented in advance of the work performed.

Based on a sample selection of five overtime payments made during 1999-2000 to determine the accuracy of amounts paid and proper authorizations, we found that none were approved in writing prior to the work being done.

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

The associate vice president for financial management stated that, in practice, managers generally approve overtime prior to the work being done. However, it is not always documented in writing to show prior approval.

When preauthorization of overtime is not documented in writing, there is an increased risk of unnecessary overtime work and pay.

### **Recommendation 4**

We recommend that the campus improve procedures to ensure that all overtime work is documented as authorized prior to work being done.

### **Campus Response**

We concur. The stated concern of the finding is that without preauthorization of overtime documented in writing, the risk of unnecessary overtime work and pay is increased. To effectively manage the risk while ensuring that the diversion of resources towards control does not exceed the original risk, the mechanism used will be an annual memorandum issued to all employees from the Director of the Center for Human Resources.

- The memorandum will remind managers that all overtime must be approved in advance.

- Managers will be reminded that their signature on overtime authorization forms attests that advance authorization had been given.
- Employees will be reminded that overtime requires supervisory approval, i.e., overtime cannot be self-assigned.
- Employees will be notified that no pay can or will be issued for overtime worked without specific advance authorization.
- It will be clarified that overtime is occasion specific, and that there are no blanket or long-standing authorizations of overtime.

The memorandum will be distributed by November 2001.

## **FIXED ASSETS**

Property reconciliations were not prepared timely and were not signed and dated by a reviewer.

Property reconciliations for January 2001, December 2000, and November 2000 showed a preparation date of April 17, 2001; however, none were signed by a reviewer.

SAM §7908 states that all reconciliations will show the name of the preparer and the reviewer and the dates prepared and reviewed.

Not performing timely reconciliations can result in errors and irregularities going undetected for an extended period.

### **Recommendation 5**

We recommend that the campus establish procedures to ensure that property reconciliations are signed and dated by the preparer and reviewer.

### **Campus Response**

We concur. The campus has taken steps to ensure that both the preparer and the reviewer clearly indicate the date next to their initials or their initials next to the time-stamped date on the document. In addition, a schedule has been established for the monthly reconciliation.

## **INFORMATION TECHNOLOGY**

### **USER ACCOUNT DELETION/ID REMOVAL (ALL APPLICATIONS)**

Security administration of user access required improvement to ensure that all persons having responsibility for removal of user access privileges were notified in a timely manner.

Currently the process varies widely by application system. For Oracle, a report from the human resources (HR) system reflecting changes in employment status had been suspended since the system conversion to Oracle. For CashNet and OneCard, no independent notification of access removal exists.

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 information management stated that employee termination reports have been produced only sporadically over the years, in part because of information anomalies in the state payroll system which make it difficult to distinguish true separations from end-of-term appointment changes. The director stated that a terminations report was in development but had not yet been deployed. The application managers for both CashNet and OneCard indicated that they relied on the individual department managers to inform them of changes in employment status, but that an independent verification was not performed to ensure that the administrators had been notified.

When user access privileges are not changed as changes occur in employment status, the campus is exposed to program and data security risks.

### **Recommendation 6**

We recommend that the campus develop procedures to ensure that information technology (IT) security administrators are notified of changes in employment status in a timely manner.

### **Campus Response**

We concur. Business Information Systems has developed two extract files that will be used to notify system administrators of changes in employment status in a timely manner. These files will be used for other purposes as well. The process to produce the files is in production and the Center for Human Resources will work with Business Information Systems to develop procedures for authorizing access to these files for system administrators by the end of October 2001.

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

The existing disaster recovery plan did not appear to contain sufficient information to ensure that data processing services could be recovered in a timely manner, and the plan had not been tested.

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.

Specifically, we noted the following:

- ▶ Risk assessment of the IT plan was last updated in October 1999.

- ▶ The San Diego State Risk Assessment Plan does not address services that will or will not be restored as part of the recovery plan, i.e., an assumptions list. The assumptions list would indicate the status of data files at the time of restoration, which could be up to one week old.
- ▶ The location of a command center has not been specified and the method for notification and escalation clearly defined.
- ▶ The existing contract for replacement equipment does not specify a restoration location or timeline for restoration to satisfy the stated recovery time frame.
- ▶ The plan does not include other essential San Diego State equipment that is vital to the operation of the campus, such as CashNet.
- ▶ Formal testing with specific scenarios has not occurred to help identify potential points of failure in existing recovery procedures. Testing has only included limited restoration.
- ▶ San Diego State has not developed a written manual of operations and recovery procedures for business units in the event of an extended outage of data processing services (e.g., how to recover one week of lost data and procedures for entering data collected manually during the week of a system outage).

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. 696 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, including, but 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 are accomplished.

The director of university computer operations stated that although a contract was in place to acquire the necessary hardware and data recovery and procedures were documented, comprehensive, detailed recovery policies and procedures had not been completed.

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

### **Recommendation 7**

We recommend that the campus update its disaster recovery and business continuity plans to include the following:

- a. Update the risk assessment plan and include services that will or will not be restored as part of the recovery plan.
- b. Identify the location of a command center and the method for notification and escalation.
- c. Specify a location and timeline for equipment replacement and service restoration to satisfy the stated recovery time frame.
- d. Address other essential San Diego State equipment that is vital to the operation of the campus.
- e. Formal testing of the disaster recovery plan.
- f. Develop a written manual of operations and recovery procedures for business units in the event of an extended outage of data processing services.

### **Campus Response**

We concur.

- a. The risk assessment plan will be reviewed and updated with services to be restored by April 2002.
- b. A location of a backup command center and method for notification and escalation will be documented by April 2002.
- c. A specific location and timeline for equipment replacement and service restoration to satisfy the stated recovery time frame will be documented by April 2002.
- d. Other essential San Diego State equipment that is vital to the operation of the campus will be documented by April 2002.
- e. A formal testing of the disaster recovery plan will be documented by April 2002.
- f. A documented written manual for operations and recovery procedures for business units in the event of an extended outage of data processing services will be written by April 2002.

## **PROGRAM CHANGE CONTROL (CASHNET)**

Vendor access privileges to CashNet for system updates were not monitored or controlled.

Specifically we noted that:

- ▶ One vendor has unlimited access to programs and data.
- ▶ Production changes are sometimes made without validation by San Diego State.
- ▶ One vendor has 24-hour dial-up access to the system.

Existing practices do not prevent all persons with programming responsibilities from making unauthorized changes to production.

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 systems coordinator, student financial services, stated that the contract specifies that the vendor be provided access to the system for maintenance. Contracting for software maintenance does not relinquish the campus of the responsibility for ensuring proper control.

Since vendors have the capability to make changes directly to production copies of CashNet programs, management cannot be assured that all changes made are authorized and, consequently, that internal controls are not compromised. Adequate segregation of duties should prevent all persons responsible for program maintenance from moving such changes into the production environment.

### **Recommendation 8**

We recommend that:

- a. San Diego State monitor and control all activity performed on the CashNet system.
- b. Detective controls are implemented to track vendor access and program changes.

### **Campus Response**

We concur.

- a. San Diego State does monitor and control all activity performed on the CASHNet system. We have monitoring tools that enable us at any time to see which users are accessing or have accessed the system. Vendor accessed is reviewed routinely for reasonableness.

Customer support staff at Informed Decisions, Inc. can access the system, but it is confined to look up (no update access). Informed Decisions also takes security very seriously and has its

own security measures in place (firewall, access limited to static IP addresses, password changes, etc.).

- b. The campus has implemented a log system so that all contact with Informed Decisions staff prior to upgrades or access to the system is recorded. Unauthorized access will be detectable. All program and version changes are coordinated with Informed Decisions staff as a standard practice. We are also given a list of all programs and table changes so we can monitor those programs as the software goes into production. Because there are times when jobs need to run without interference, coordination between SDSU and Informed Decisions is essential.

## TRUST FUNDS

Trust agreements were not in place for all trust accounts, and trust disbursements were not always properly authorized.

From a sample selection of 10 trust accounts, we found two instances where the campus was unable to provide written agreement for the accounts. In addition, we found seven instances, totaling \$817,785, where disbursements were made without review and approval by an authorized signer as provided for on the trust agreement. In two of the seven instances where trust disbursements were not properly authorized, the expenditures were issued to reimburse the General Fund and the initial authorization to make disbursements of General Fund monies was accepted as an authorization to disburse trust funds. In the five remaining instances, a written record of authorized approval was not obtained to make trust disbursements.

SUAM §3710.02 provides that:

- ▶ Each trust project must be supported by documentation, such as a contract or a trust agreement.
- ▶ Disbursements from a trust project should be made only for the purpose for which the trust project was established.

The campus trust accountant stated that when special project funds were moved to trusts, agreements were not established for all accounts. While authorizations to make disbursements of General Fund monies were accepted as an authorization to disburse trust funds to reimburse the General Fund, we found other instances where the trust accountant had failed to obtain proper authorization before disbursing trust funds.

When fiduciary responsibilities are not documented in writing and followed, misunderstandings may occur including improper fund management and unauthorized disbursements.

**Recommendation 9**

We recommend that the campus ensure that:

- a. Trust agreements are in place for all trust/special project accounts.
- b. Trust disbursements are properly authorized by an authorized signer on the trust agreement.

**Campus Response**

We concur.

- a. Each trust fund should have an established agreement in place. The trust accountant will coordinate the completion of this project. All agreements will be in place by the end of October 2001.
- b. San Diego State University is working on a campus project to update all signature cards for established organizations. All signature cards will be updated by the end of October 2001.

In addition, all self-support budgets, in particular those with trust as a source, will be reviewed on an annual basis to ensure that the signatures on the self-support budget are authorized on the trust agreements. All requests for trust disbursements will be reviewed by the trust accountant for appropriate signatures before payment is issued.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Stephen L. Weber	President
Cindy Batzler	Accounting Technician
Linda Beum	Accounting Technician
Sue Blair	Director, Human Resources
Jessie Buggs	Coordinator, Shipping and Receiving
Paul Carlisle	Supervisor, Aztec Card Center
Valerie Carter	Tax and Audit Coordinator
Leslie Chase	Financial Reporting Manager
Cathy Garcia	Assistant Director, Procurement Services
Ellene Gibbs	Director, Business Information Management
Lorretta Leavitt	Controller
Edmund Lucas	Coordinator Material Management
Kay Messinger	Operations Director, Business Information Systems
Judy Mitchell	Manager, Payroll Services
Jeanette Nevandro	Operations Supervisor, (Cashiers) College of Extended Studies
Robert Newhouse	Director, University Computer Operations
Cindy Ormsby	Accounting Technician
Mary Ann Patty	Manager, University Cashiers
Lawrence Peralez	Director, Business Services
Kenneth Perry	Associate Vice President, Financial Management
Deborah Quiett	Manager, Student Financial Services
Kimberlee Reilly	Systems Coordinator, Student Financial Services
Sally Roush	Vice President, Business and Financial Affairs
Richard Scharff	Director, Procurement Services
Joseph Vasquez	Associate Vice President, Business Enterprise
Sherry Velthuysen	Head Cashier, Student Health Services
Brian West	Trust Accountant
Steve Williams	Captain, Department of Public Safety

## STATEMENT OF INTERNAL CONTROLS

### A. INTRODUCTION

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

### B. INTERNAL CONTROL DEFINITION

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

#### 1. Internal Accounting Controls

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

#### 2. Operational Controls

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

### C. INTERNAL CONTROL OBJECTIVES

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

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



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October 8, 2001

**RECEIVED**  
University Auditor

OCT 10 2001

**The California State  
University**

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802

Dear Mr. Mandel:

The following is San Diego State University's response to Audit Report Number 01-02, FISMA. For ease of reference, the report's recommendations have been included with our responses.

**Recommendation 1**

We recommend that the campus reconcile application fees against the number of applications received less approved fee waivers for each academic term.

**Campus Response**

We concur. The campus has taken steps to ensure that these reconciliations are completed.

A Student Information Request Form was submitted to SIMS/R Operations requesting an Application Fee Status Report. This report provides the University Cashiers Office with the necessary information regarding paid applications, fee waivers, and unaccommodated (unpaid) applications that will allow for a meaningful reconciliation.

A reconciliation was performed for the CSUMentor (electronic) applications for the period January 2000 through December 2000. During the fall 2000, electronic applications accounted for 35 percent of all applications received. For the fall 2001 semester, the number of electronic applications has grown to 18,643, which is 47 percent of the total received. We are currently in the process of completing the spring 2001 reconciliation for all applications. Reconciliations through spring 2001 will be completed by the end of October 2001.

**Recommendation 2**

We recommend that the campus establish procedures to ensure that the State University Fee (SUF) reconciliation is signed and dated by the preparer and reviewer.

Mr. Larry Mandel  
Page 2  
October 8, 2001

### **Campus Response**

We concur. The campus will ensure that the state university fee (SUF) reconciliation report is signed and dated by both the preparer and the reviewer.

### **Recommendation 3**

We recommend that the campus establish procedures to ensure that the revolving fund reconciliation is signed and dated by the preparer and reviewer.

### **Campus Response**

We concur. The campus has taken steps to ensure that both the preparer and the reviewer clearly indicate the date next to their initials or their initials next to the date time-stamped on the document.

### **Recommendation 4**

We recommend that the campus improve procedures to ensure that all overtime work is documented as authorized prior to work being done.

### **Campus Response**

We concur. The stated concern of the finding is that without preauthorization of overtime documented in writing, the risk of unnecessary overtime work and pay is increased. Towards effectively managing the risk, while ensuring that the diversion of resources towards control does not exceed the original risk, the mechanism used will be an annual memorandum issued to all employees from the Director of the Center for Human Resources.

- The memorandum will remind managers that all overtime must be approved in advance.
- Managers will be reminded that their signature on overtime authorization forms attests that advance authorization had been given.
- Employees will be reminded that overtime requires supervisory approval, i.e., overtime cannot be self-assigned.
- Employees will be notified that no pay can or will be issued for overtime worked without specific advance authorization.
- It will be clarified that overtime is occasion specific, and that there are no blanket or long-standing authorizations of overtime.

The memorandum will be distributed by November 2001.

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**Recommendation 5**

We recommend that the campus establish procedures to ensure that property reconciliations are signed and dated by the preparer and reviewer.

**Campus Response**

We concur. The campus has taken steps to ensure that both the preparer and the reviewer clearly indicate the date next to their initials or their initials next to the date time-stamped on the document. In addition, a schedule has been established for the monthly reconciliation.

**Recommendation 6**

We recommend that the campus develop procedures to ensure that information technology (IT) security administrators are notified of changes in employment status in a timely manner.

**Campus Response**

We concur. Business Information Systems has developed two extracts files that will be used to notify system administrators of changes in employment status in a timely manner. These files are used for other purposes as well. The process to produce the files is in production and the Center for Human Resources will work with Business Information Systems to develop procedures for authorizing access to these files for system administrators by the end of October 2001.

**Recommendation 7**

We recommend that the campus update its disaster recovery and business continuity plans to include the following:

- a. Update the risk assessment plan and include services that will or will not be restored as part of the recovery plan.
- b. Identify the location of a command center and the method for notification and escalation.
- c. Specify a location and timeline for equipment replacement and service restoration to satisfy the stated recovery time frame.
- d. Address other essential San Diego State equipment that is vital to the operation of the campus.
- e. Formal testing of the disaster recovery plan.
- f. Develop a written manual of operations and recovery procedures for business units in the event of an extended outage of data processing services.

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### **Campus Response**

We concur.

- a. The risk assessment plan will be reviewed and updated with services to be restored by April 2002.
- b. A location of a backup command center and method for notification and escalation will be documented by April 2002.
- c. A specific location and time line for equipment replacement and service restoration to satisfy the stated recovery time frame will be documented by April 2002.
- d. Other essential San Diego State equipment that is vital to the operation of the campus will be documented by April 2002.
- e. A formal testing of the disaster recovery plan will be documented by April 2002.
- f. A documented written manual for operations and recovery procedures for business units in the event of an extended outage of data processing services by April 2002.

### **Recommendation 8**

We recommend that:

- a. San Diego State monitor and control all activity performed on the CashNet system.
- b. Detective controls are implemented to track vendor access and program changes.

### **Campus Response**

We concur.

- a. San Diego State does monitor and control all activity performed on the CASHNet™ system. We have monitoring tools, which enables us at any time to see which users are accessing or have accessed the system. Vendor accessed is reviewed routinely for reasonableness.

Customer support staff at Informed Decisions, Inc. can access the system, but it is confined to look-up (no update access). Informed Decisions also takes security very seriously and has its own security measures in place (firewall, access limited to static IP addresses, password changes, etc.).

- b. The campus has implemented a log system so that all contact with Informed Decisions staff, prior to upgrades or access to the system, is recorded. Unauthorized access will be detectable. All program and version changes are coordinated with Informed Decisions staff as a standard practice. We are also given a list of all programs and table changes so we can monitor those programs as the software goes into production. Because there are times when

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programs and table changes so we can monitor those programs as the software goes into production. Because there are times when jobs need to run without interference, coordination between SDSU and Informed Decisions is essential.

### **Recommendation 9**

We recommend that the campus ensure that:

- a. Trust agreements are in place for all trust/special project accounts.
- b. Trust disbursements are properly authorized by an authorized signer on the trust agreement.

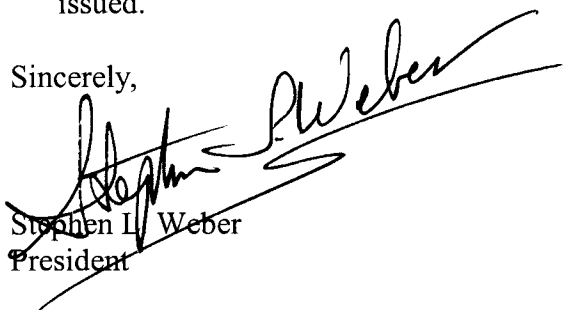
### **Campus Response**

We concur.

- a. Each trust fund should have an established agreement in place. The trust accountant will coordinate the completion of this project. All agreements will be in place by the end of October 2001.
- b. San Diego State University is working on a campus project to update all signature cards for established organizations. All signature cards will be updated by the end of October 2001.

In addition all self-support budgets, and in particular those with a trust as a source, will be reviewed on an annual basis to ensure that the signatures on the self-support budget are authorized on the trust agreements. All requests for trust disbursements will be reviewed by the trust accountant for appropriate signatures before payment is issued.

Sincerely,



Stephen L. Weber  
President

SLW/nes

- c: Sally F. Roush, Vice President for Business and Financial Affairs  
Ellene J. Gibbs, Director, Business Information Management

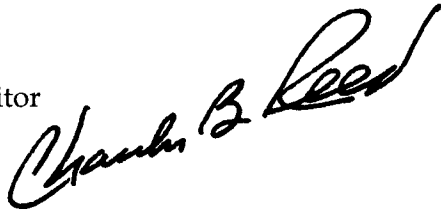
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SONOMA  
STANISLAUS

November 1, 2001

MEMORANDUM

TO: Larry Mandel  
University Auditor

FROM: Charles B. Reed  
Chancellor 

SUBJECT: Draft Final Report Number 01-02 on *FISMA*,  
San Diego State University

In response to your memorandum of November 1, 2001, I accept the response as submitted with the draft final report on FISMA, San Diego State University.

CBR/ac

Enclosure

cc: Dr. Stephen L. Weber, President