

FISMA

SAN FRANCISCO STATE UNIVERSITY

**Report Number 01-04
August 3, 2001**

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ABBREVIATIONS

ARM	Accounts Receivable Module
CSU	California State University
CTO	Compensatory Time Off
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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 July 1999 to February 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.

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.

BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

This report represents our biennial review.

OPINION

We visited San Francisco State University from February 20, 2001, through April 6, 2001, and made a study and evaluation of the accounting and administrative control in effect as of April 6, 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 Francisco State management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, §13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

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

- ▶ Assets are safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- ▶ Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.

Our audit disclosed conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal controls over the following areas: purchasing, fixed assets, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, the San Francisco State accounting and administrative controls in effect as of April 6, 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.

PURCHASING [6]

PROCUREMENT CARDS [6]

Certain procurement card statements were processed and reviewed inadequately. Complete processing and reviewing of procurement card statements decrease the risk of loss.

RECEIVING [7]

Formally documented policies and procedures for the receiving department did not exist. In addition, access to the computer system did not localize accountability because student workers were receipting items under passwords assigned to staff. Documenting policies and procedures related to the receipt of goods ensures internal controls, and localizing accountability decreases the risk of loss from inappropriate acts.

REVOLVING FUND [8]

TRAVEL CLAIMS [8]

Certain travel claims were submitted without original receipts or documentation on foreign currency conversions. Complete travel claims decrease the risk of loss.

CHANGE AND PURCHASE FUNDS [9]

Certain change funds were not appropriately counted, issued, and assigned. Adequate administration of change and purchase funds decreases the risk of loss.

PAYROLL AND PERSONNEL [10]

COMPENSATORY TIME OFF [10]

Three employees in management personnel plan positions were not paid accrued compensatory time off (CTO) hours earned in prior nonexempt positions as of January 2001. Timely payment for cumulative time off decreases the risk of noncompliance with labor laws and inefficient use of funds.

EMPLOYMENT ELIGIBILITY VERIFICATION [11]

Completion of certain employment eligibility verifications was untimely. Timely completion of appropriate employment eligibility verification procedures decreases the risk of noncompliance with federal employment regulations.

FIXED ASSETS [12]

PROPERTY RECORDS [12]

Property records were incomplete and contained systematic errors. The classification of property valued at less than \$5,000 as capital assets is a repeat finding from our prior FISMA audit. Proper administration of inventory reduces the risk that campus property and financial records will be misstated.

RECONCILIATION OF GENERAL LEDGER WITH PROPERTY RECORDS [13]

The campus was not completing property reconciliations properly and timely. The proper and timely reconciliation of property reduces the risk that errors and irregularities will not be detected.

PROPERTY SURVEY REPORTS [14]

Property survey reports were incomplete. Adequate administration over property survey reports strengthens accountability over disposal of state property.

PHYSICAL INVENTORY [16]

Physical inventories of property and reconciliation with property records were incomplete. Complete physical inventories and reconciliation with property records decrease exposure to loss and misuse of fixed assets.

FISCAL INFORMATION TECHNOLOGY [17]

Certain accounts receivable module (ARM) applications were subject to uncontrolled user access. Securing user access will help protect the data against unauthorized use.

TRUST FUNDS [18]

Trust fund expenditures did not always meet the criteria for disbursement as described in the trust agreement. This is a repeat finding from our prior FISMA audit. Ensuring that all expenditures meet the criteria for disbursements as stated in the trust agreement decreases the risk of inappropriate purchases.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

PURCHASING

PROCUREMENT CARDS

Certain procurement card statements were processed and reviewed inadequately.

During our review of 15 procurement card statements, we noted the following:

- ▶ Two statements were not reconciled with the monthly credit card purchase report, vendor receipts, and invoices.
- ▶ One statement did not include the approval date by the cardholder.
- ▶ One statement did not include the initials of an approving official and the review date.
- ▶ Five statements did not include the review date by the approving official.
- ▶ Two purchase reports did not include the review date by the approving official.
- ▶ Five statements did not include the original receipts or detailed invoices.

The campus *Procurement Credit Card Policy and Procedures* states, in part:

- ▶ *Cardholder Procedures* in Section 5.0 on page 7, the cardholder reconciles the bank statement with the monthly credit card purchase report and vendor receipts and invoices.
- ▶ *Cardholder Procedures* in Section 5.0 on page 8, the cardholder will approve, sign, and date the bank statement and monthly credit card purchase report.
- ▶ *Approving Official Procedures* in Section 6.0 on page 9, the approving official is responsible for approving, initialing, and dating the monthly bank statement and credit card purchase report prepared by cardholders in their department.
- ▶ *Approving Official Procedures* in Section 6.0 on page 9, the original receipts or detailed invoices should be included with the cardholder's bank statement and credit card purchase report.

The manager of accounts payable and collections indicated that procurement card statement errors were due to procedural oversights.

Incomplete processing and review of procurement card statements increase the risk of loss of state funds.

Recommendation 1

We recommend that the campus strengthen controls to ensure that credit card statements are processed in an appropriate manner.

Campus Response

We concur. It should be noted that in all cases, the correct amount was paid, due to the audit performed by the Procurement Card Coordinator, despite two reconciling errors made by the cardholders/approvers. It should also be noted that the statements sampled did contain detailed, itemized receipts, but five had copies that not been formally certified as the originals. In some cases cited, the receipts thought to be copies were for Web-based purchases, and the receipts were in fact the only document available via the Internet for the purchase (i.e., the screen print of the order/receipt from the web site).

We have implemented a pre-screening process to insure that monthly purchase reports and/or statements which lack the appropriate signatures and/or dates are immediately returned to the cardholder or approver for correction. The Procurement Card Coordinator will now notate the monthly purchase report to indicate that an error has been corrected and the department has been notified. Receipt copies will also be certified, if for some reason the original is not available. In addition, we have revised our procedures to emphasize the importance of submitting original, itemized receipts and have also included verbiage that indicates acceptable forms of e-commerce receipts.

RECEIVING

Formally documented policies and procedures for the receiving department did not exist. In addition, access to the computer system did not localize accountability because student workers were receipting items under passwords assigned to staff.

SAM §20050 states, in part, that:

- ▶ There should be an established system of practices to be followed in the performance of duties and functions and that it represents a control weakness if policy and procedure manuals are either not up to date or do not exist.
- ▶ The elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The manager of distribution services indicated that the campus receiving department policies and procedures are communicated through on-the-job training. He further indicated that student workers were allowed system access under staff log-ins as a matter of convenience.

Not documenting policies and procedures related to the receipt of goods compromises internal controls, and failing to localize accountability increases the risk of loss from inappropriate acts.

Recommendation 2

We recommend that the campus:

- a. Document policies and procedures for the receiving department.
- b. Localize accountability for entries to the integrated purchasing and accounts payable systems' receipt-certification entry screens.

Campus Response

- a. We concur. The Manager of Distribution Services has prepared written operating procedures for the receiving and delivery functions.
- b. We concur. Effective March 21, 2001, the practice of sharing FRS passwords by student assistants was discontinued in the Receiving Department. If future workload dictates that such access is required, students will be provided a separate log-in ID and password.

REVOLVING FUND

TRAVEL CLAIMS

Certain travel claims were submitted without original receipts or documentation on foreign currency conversions.

During our review of 15 travel claims dated July 1999 through December 2000, we noted the following:

- ▶ Four travel claims did not include the original receipts or vouchers.
- ▶ Three travel claims did not substantiate the basis for conversion of foreign expenses into U.S. dollars.

California State University (CSU) Memorandum HR 96-11, *Policy and Procedures Governing Travel and Related Expense Reimbursement*, dated June 21, 1996, states, in Section 110 on page 11, that the original receipts or vouchers must be submitted for every item of expense except as specified in the systemwide policy and procedures.

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

The manager of accounts payable and collections indicated that the travel claim errors were due to procedural oversights.

Incomplete documentation in support of travel claims increases the risk of loss.

Recommendation 3

We recommend that the campus strengthen controls to ensure that travel claims are supported with proper documentation.

Campus Response

We concur. It should be noted that each claim sampled contained supporting receipts, although in four cases they were uncertified copies of the original receipts. Also, although three travel claims did not substantiate the basis for conversion of foreign expenses into U.S. dollars, subsequent testing proved that in each case the amount paid was within the high/low tolerance of the currency conversion software which was adopted for use subsequent to the dates of the claims chosen for sampling.

We have used, and continue to use, currency conversion software consistently since its implementation. In addition, any receipt copies submitted in lieu of an original are now certified to be a true and correct copy by the Traveler and the Travel Coordinator.

CHANGE AND PURCHASE FUNDS

Certain change funds were not appropriately counted, issued, and assigned.

During our review of 10 active change and petty cash funds between February 2000 and January 2001, we noted the following:

- ▶ Seven change and petty cash funds were not subject to independent counts as frequently as required.
- ▶ A newly established change and petty cash fund issued for \$1,150 to the Head Start Program in October 1999 had not received approval from the Department of Finance.
- ▶ A single custodian at the student health center was assigned a change and petty cash fund that increased six times totaling \$1,200 as of January 2001 without receiving approval from the Department of Finance.

SAM §8111.2 states that transfers of custody will be accomplished only after the employees directly concerned have made a personal audit of the fund and the newly assigned custodian has given a receipt to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting department. An employee other than the custodian of the change fund

will count it in accordance with the following schedule:

<u>Size of Fund</u>	<u>Frequency of Count</u>
\$200.00 or less	Annually
\$200.01 to \$500.00	Quarterly
\$500.01 to \$2,500.00	Monthly

SAM §8111.1 states that each change fund in excess of \$500 will be established only after approval of the Fiscal Systems and Consulting Unit in the Department of Finance.

SAM §8112.1 establishes limits for cash purchase funds.

SAM §8112.6 states that the accountability for cash purchase will be the same as for change funds.

The manager of governmental fund accounting indicated that temporary workload fluctuations resulted in the necessity to defer the fund counts. He further indicated that procedural oversights occurred with the application to establish and increase large change and purchase fund balances.

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 4

We recommend that the campus strengthen procedures to ensure that change and purchase funds are appropriately counted, issued, and assigned.

Campus Response

We concur. Immediate steps will be taken to insure the appropriate handling of change and purchase funds. Campus procedures will be strengthened with items cited in the audit resolved by October 1, 2001.

PAYROLL AND PERSONNEL

COMPENSATORY TIME OFF

Three employees in management personnel plan positions were not paid accrued compensatory time off (CTO) hours earned in prior nonexempt positions as of January 2001.

Various interpretations of human resources criteria address the treatment of accumulated CTO when employees move from represented to exempt positions.

SAM §20050 states, in part, that a satisfactory system of internal control promotes operational efficiency.

The director of human resources indicated that the departments with employees converting to exempt classifications might not have budget available to pay accrued CTO hours at the point of reassignment.

Untimely payment for cumulative time off increases the risk of noncompliance with labor laws and inefficient use of funds.

Recommendation 5

We recommend that the campus consult with the chancellor's office on requirements for paying accumulated CTO to employees who move from represented to exempt positions.

Campus Response

During the weeks of September 4th and September 10th, contact was made with the Human Resources Division of the Chancellor's Office, specifically, Pamela Chapin, Sr. Manager, Benefits and Salary. Since there are currently no written guidelines or regulations with respect to paying accumulated CTO to employees who move from represented to exempt positions, Pam Chapin indicated that she would address the issue with her supervisor, Cathy Robinson, Senior Director for Human Resources Administration. A copy of the FISMA Audit recommendation has been submitted to Pam Chapin for reference.

Although we have already implemented the recommendation we request that the entire finding and recommendation be deleted from the report since there is apparently no requirement to pay off the CTO in this situation.

EMPLOYMENT ELIGIBILITY VERIFICATION

Completion of certain employment eligibility verifications was untimely.

During our review of 10 new hires, we noted that two employment eligibility verifications were completed at least five months following the appointment date.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and non-citizens are required to complete Form I-9 Employment Eligibility Verification at the beginning of employment.

The manager of classification and employment indicated that the hiring departments were responsible for employment eligibility verification for faculty appointments.

Untimely completion of employment eligibility verification increases the risk of noncompliance with federal employment regulations.

Recommendation 6

We recommend that the campus strengthen procedures to ensure that all new appointments comply with federal employment regulations at the beginning of employment.

Campus Response

We concur. The staff I-9 verification process has been centralized in the Department of Human Resources and is efficient. The FISMA Audit revealed untimely completion of I-9 forms for faculty. Previously, the academic departments have administered the I-9's for faculty and have retained the documents.

The campus has revised procedures concerning Form I-9 Employment Eligibility Verification for faculty. The procedures now require that the academic departments submit the I-9 Authorization to Human Resources with all other required employment documents for faculty at the time of hire. All academic departments were notified of the new requirement in an August 13, 2001 memo.

FIXED ASSETS

PROPERTY RECORDS

Property records were incomplete and contained systematic errors. The classification of property valued at less than \$5,000 as capital assets is a repeat finding from our prior FISMA audit.

We reviewed 15 property additions, completed between January 1999 and September 2000, and noted the following:

- ▶ Nine property additions were capitalized even though they had a unit cost of \$5,000 or less.
- ▶ Eight of the eleven property purchases tested were not recorded at the purchase price, plus all incidental costs incurred to put the asset into place and ready for its intended use.
- ▶ One property acquisition transferred from a grantor was recorded without documentation for the cost recorded on the books of the transferor department.
- ▶ Two property acquisitions by gift were recorded without an adequate appraisal for the fair market value.

SAM §8602 states that one of the requirements for capitalization is an asset must have a unit acquisition cost of at least \$5,000.

SAM §8631 requires purchased assets to be recorded at the purchase price, plus all incidental costs incurred to put the asset into place and ready for its intended use.

The manager of distribution services indicated that the resources used by the property office to extrapolate cost data do not necessarily capture all incidental costs. To record the value of gifts and transfers, the property office must often rely on the cooperation of recipients and departments over whom it has no authority.

Inadequate administration of inventory increases the risk that campus property and financial records will be misstated.

Recommendation 7

We recommend that the campus:

- a. Capitalize only those assets with a unit acquisition cost of at least \$5,000.
- b. Record purchased capitalized property at the purchase price, plus all incidental costs incurred to put the asset into place and ready for its intended use.
- c. Record capitalized property acquired by gift or transfer based on valuations that can be supported by adequate documentation.

Campus Response

- a. We concur. All assets valued at \$5,000 or more are capitalized. This policy went into effect February 2001.
- b. We concur. The Director of Procurement will work with the Manager of Distribution Services to establish a procedure to insure that assets are recorded at the correct price, including all incidental costs. Analysis, development and implementation of procedures will be completed by October 31, 2001.
- c. The University has a written policy and forms for accepting donations and transfers of property, which include the requirement for obtaining an independent appraisal of items valued in excess of \$5,000. The Director of Procurement has instructed the Manager of Distribution Services to insure Property Office staff has received required documentation before items are accepted and recorded. In addition, the Director has instructed the Property Office that estimates obtained other than through a formal appraisal will require verification by an independent, knowledgeable third party.

RECONCILIATION OF GENERAL LEDGER WITH PROPERTY RECORDS

The campus was not completing property reconciliations properly and timely.

During our review of property reconciliations in February 2001, we noted that property inventory records were:

- ▶ Reconciled against the general ledger balances for the following month rather than the current one.
- ▶ Last reconciled to the general ledger for November 2000.

SAM §7900 states that:

- ▶ The accuracy of accounting records can be proved by making certain reconciliations and verifications.
- ▶ All reconciliations be prepared within 30 days of the preceding month.

The manager of distribution services indicated that the department did not have the appropriate information to adequately prepare the property reconciliations.

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

Recommendation 8

We recommend that the campus:

- a. Reconcile property inventory records against the general ledger balances for the same period.
- b. Prepare property reconciliations within 30 days of the preceding month.

Campus Response

We concur. The Director of Procurement and the Manager of Distribution Services will review and revise the procedure for the monthly reconciliation of the property records. The objective will be for the Property Office to receive proper and complete information on a timely basis, allowing the Property Accountant to perform monthly reconciliation of the property records to the general ledger, and to report the information in a clear format, to be reviewed each month by the Director. Analysis, development and implementation of procedures will be completed by October 30, 2001.

PROPERTY SURVEY REPORTS

Property survey reports were incomplete.

From a sample of 15 property survey reports, we found that:

- ▶ In four instances, the original cost and correct disposition method, i.e., property surveyed as junk, was reported on the attached schedules as traded, sold, lost, and gifted.

- ▶ In all instances, a sufficient audit trail specifying the final disposition of assets by sale, auction, donation, or destruction was not maintained.
- ▶ In all instances, an attached public safety report was not included when items were reported as missing.

SAM §3520.3 requires agencies to prepare a property survey report whenever an agency disposes of state-owned property by sale, trade-in, discarding, or to be turned over to property reutilization.

SAM §3520.4 requires adequate information be supplied in the explanation section of the property survey report to describe the reason for disposal.

SAM §3520.8 requires the amount of cash received from the sale of material to be recorded on the approved copy of the property survey report.

SAM §3520.9 requires certification of disposal of property by means other than sale to be made on the property survey report or attached and filed with the report.

The manager of procurement services indicated that his department advised other departments in the proper procedures to survey property. He further indicated that there were occurrences where more complete documentation should have been provided.

Inadequate administration over property survey reports reduces accountability over the disposal of state property.

Recommendation 9

We recommend that the campus review and strengthen property survey procedures to ensure compliance with internal control requirements.

Campus Response

We concur. The Director of Procurement has been appointed the new chair of the University Property Board and will take an active role in reviewing the disposition of university property. Initiatives will include revising the survey form to more clearly evaluate equipment condition and recommended method of disposition, and clearly establishing the responsibility for determining and/or approving appropriate disposition procedures. The Property Board will review survey activity at regular meetings, to insure proper reporting and control of property dispositions. Implementation of procedures, forms, reporting formats, etc. will be completed by November 30, 2001.

PHYSICAL INVENTORY

Physical inventories of property and reconciliation with property records were incomplete.

We noted that:

- ▶ Worksheets used to take inventory did not show the date of inventory and the name of the inventory taker.
- ▶ Documentation of the resolution of open items resulting from the inventory count was incomplete.
- ▶ Results of the reconciliation of physical inventories with the accounting records, along with resulting adjustments, were not reported to management.

SAM §8652 requires, in part, the following for physical counts of inventory:

- ▶ Worksheets showing the date of inventory and the name of the inventory taker.
- ▶ Adjustment and reconciliation of the records after the physical count has been completed.
- ▶ Management oversight of resulting adjustments.

The manager of distribution services indicated that the department identified discrepancies between the property listing and physical counts. However, the property custodians in the respective departments did not always respond to follow-up requests to resolve discrepancies.

Incomplete physical inventories and reconciliation with property records increase exposure to loss and misuse of fixed assets.

Recommendation 10

We recommend that the campus:

- a. Document the date of inventory and the name of the inventory taker on count worksheets.
- b. Complete its reconciliation of its physical inventory and report the results to management.

Campus Response

- a. We concur. The Manager of Distribution Services has already implemented a policy requiring that the inventory worksheets be signed and dated by the person performing the inventory.
- b. We concur. The Property Board will review the results of all physical inventories. The Board will escalate requests for clarification of open items to appropriate management within a campus unit until discrepancies are resolved. The Board will approve the results of physical inventories, recommendations regarding discrepancies and/or missing equipment, and reconciling entries to accounting records on a regular basis and submit a summary of this activity to the AVP for Fiscal

Affairs and the VP of Business and Finance. Implementation of procedures and reporting formats will be in place for the quarter ending December 31, 2001.

FISCAL INFORMATION TECHNOLOGY

Certain accounts receivable module (ARM) applications were subject to uncontrolled user access.

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

The database administrator stated that the Oracle software has a security flaw when the database is accessed through structured query language.

The data vulnerability through uncontrolled access can allow unauthorized users to access and modify data that should be secured.

Recommendation 11

We recommend that additional or increased security for the Oracle application of the ARM database be sought out in addition to continued and frequent monitoring of the audit log tables.

Campus Response

We concur. A solution to address this recommendation has been implemented. The specific actions we have taken to comply with this recommendation are:

- Set up enhanced audit logs on the two primary ARM data tables (CHARGES and PAYMENTS) so that modifications of a type prohibited by the ARM application will be logged whenever they occur by some other means. The logs are reviewed regularly by DoIT application managers. The logs contain enough information to pinpoint the source of the change and to rollback the data to a previous state if necessary.
- Remove an exposure of a vital schema password by providing a dedicated log-in for the CASHNet posting process with very limited permissions.
- Set up a system where the primary ARM schema account is never accessible to non-DoIT personnel. The ARM batch run account has been made inaccessible to users in the production database, but as part of the daily transfer to the test and reporting databases, it is re-enabled for their use with a different password.
- Provided that no user accounts have SQL access on the production database.

An alternate solution, relying more on Oracle features, is being explored with Oracle Consulting. Should this prove feasible, it would offer a more efficient solution. This solution is based on having all

registered application screens log into a central security management account before being re-logged in to the actual destination account using a system-internal password. This would prevent an Oracle user from accessing their account by any means other than a registered application.

The feasibility of such a system is currently being explored via a preliminary design. Also, this would require a new account/security management system. Following the preliminary design, an assessment of such a system will occur during the next calendar year. Should this alternate solution not prove viable, the initial solution will remain in effect.

TRUST FUNDS

Trust fund expenditures did not always meet the criteria for disbursement as described in the trust agreement. This is a repeat finding from our prior FISMA audit.

During our test of 20 trust fund expenditures, we noted that five disbursements did not meet the criteria for disbursement as described in the individual trust agreements. Specifically, the campus trust agreements indicate a type of expenditure authorized. In our opinion, the five disbursements that did not meet the type authorized were:

ACCOUNT	TYPE OF EXPENDITURE AUTHORIZED	EXPENDITURES THAT DID NOT MEET TYPE AUTHORIZED
Miscellaneous Trust for Student Health Service (A/C# 758853)	Outside laboratory charges, supplies, personnel, and equipment	\$130 for pizzas \$92.63 for coffee service
College Work Study Administrative Charges (A/C# 758851)	Various financial aid administrative expenses: 1) office supplies, postage, printing and tutor fingerprinting costs; 2) student assistants and staff salaries – temporary help involved in financial aid programs and financial aid information systems	\$120.40 for continental breakfast – CSU Director’s meeting. \$200 - travel \$317 - travel

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

The manager of trust and project accounting indicated that the department processes trust expenditures by reviewing the signature authority on the requisition, current account cash balance, and identification of any unusual trust transactions.

Not ensuring that all expenditures meet the criteria for disbursements as described in the trust agreement increases the risk of inappropriate purchases.

Recommendation 12

We recommend that the campus strengthen controls to ensure expenditures meet the criteria for disbursement as stated in the trust agreements.

Campus Response

We concur. Fiscal Affairs' staff will work with individual departments to insure they fully understand their responsibility to make all disbursements in accordance with the established disbursement criteria provided in each Trust agreement. An educational campaign will be completed by October 31, 2001.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert A. Corrigan	President
Aludia Artiga	Accountant, Procurement Services
Christopher Bomar	Executive Assistant to the Vice President, Business and Finance
Richard Chen	Senior Accountant, Trust and Project Accounting
Cathy Cheng	Accounting Analyst, Government Accounting
Mike Curran	Customer Service Supervisor, Facilities and Service Enterprises
Ben Fernandez	Director, Advancement Services
Denise Fox	Director, Human Resources
Richard Garbarino	Manager, Distribution Services
Lily Gee	Parking Coordinator, Parking and Transportation
Wanda Humphrey	Manager, Payroll
Robert Hutson	Associate Vice President, Facilities and Service Enterprises
Chess Kittredge	Database Administrator, Computing Services and Telecommunications
Wayne Kuhaupt	Manager, Accounts Payable and Collections
Phoebe Kwan	Executive Director, Computer Services and Telecommunications
Jeanne Lee	Development Associate, University Development
Karen Lee	Accounting Technician, Accounts Payable and Collections
Franz Lozano	Associate Internal Auditor, San Francisco State
Richard Montgomery	Unit Head, Rapid Copy Center
Sam Moriana	Compliance Analyst, San Francisco State Internal Audit
Claudette Neveu	Supervisor, Office of the Bursar
Vicky Nguyen	Accounting Analyst, Trust and Project Accounting
Michael O'Brien	Business Systems Coordinator
Juliet Olson	Business Manager, Student Health Service
Jeffrey O'Toole	Property Officer
Song Park	Procurement Card Coordinator
Armen Perez	Housing Financial Information Coordinator
Patricia Piotrowski	Interim Director, Purchasing and Contracts
Jonathan Rood	Associate Vice President, Computing Services and Telecommunications
Judah Rosenwald	Chief Financial Officer, College of Extended Learning
Donna Ryan	Manager, Classification and Employment
Jose Sampang	Senior Accountant, Government Accounting
Julie Savignano	Supervisor, Accounts Payable and Collections
Don W. Scoble	Vice President, Business and Finance
Tapati Shah	Travel Coordinator, Accounts Payable and Collections
Stephen Smith	Director of Procurement
Andrew Stockton	Assistant Director, Housing and Residential Services
Jack Tse	Director, Computer Services and Telecommunications

APPENDIX A

Gloria Tseung	Senior Accountant, Government Accounting
Richard Uchida	Business Officer, Library Administration
Jim Van Ness	Internal Auditor
Edwin Waite	Director, Employee Relations
Larry Ware	Associate Vice President, Fiscal Affairs
Burkland Wong	Manager, Trust and Project Accounting
Corazon Wong	Director, Student Financial Operations and Fiscal Affairs Business Systems
Armando Ysip	Manager, Government Accounting

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.

1600 Holloway Avenue
San Francisco, California 94132

Tel: 415/338-1381
Fax: 415/338-6210



San Francisco
State University

Office of the President

September 20, 2001

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, California 90802-4210

RECEIVED
University Auditor

SEP 26 2001

The California State
University

Dear Mr. Mandel:

We have carefully reviewed Office of the University Auditor Report #01-04 on FISMA at San Francisco State University. The report identified areas where additional efforts are needed, and we have already taken actions to implement the recommendations.

Our responses to the recommendations are attached. Questions regarding the responses may be directed to Don Scoble, Vice President for Business and Finance, at 415/338-1323 or Jim Van Ness, Internal Auditor, at 415/338-7183.

Sincerely,

Robert A. Corrigan
President

JVN/id

Attachments

- cc: Don W. Scoble, Vice President for Business and Finance
- Larry Ware, Associate Vice President/Controller, Fiscal Affairs
- Denise Fox, Director, Human Resources
- Jonathan Rood, Associate Vice President, Division of Information Technology
- Jim Van Ness, Internal Auditor

Recommendation 1: Procurement Cards

We recommend that the campus strengthen controls to ensure that credit card statements are processed in an appropriate manner.

September 20, 2001 Campus Response

We concur. It should be noted that in all cases, the correct amount was paid, due to the audit performed by the Procurement Card Coordinator, despite two reconciling errors made by the cardholders/approvers. It should also be noted that the statements sampled did contain detailed, itemized receipts, but five had copies that not been formally certified as the originals. In some cases cited, the receipts thought to be copies were for Web-based purchases, and the receipts were in fact the only document available via the Internet for the purchase (i.e., the screen print of the order/receipt from the web site).

We have implemented a pre-screening process to insure that monthly purchase reports and/or statements which lack the appropriate signatures and/or dates are immediately returned to the cardholder or approver for correction. The Procurement Card Coordinator will now notate the monthly purchase report to indicate that an error has been corrected and the department has been notified. Receipt copies will also be certified, if for some reason the original is not available. In addition, we have revised our procedures to emphasize the importance of submitting original, itemized receipts and have also included verbiage that indicates acceptable forms of e-commerce receipts. (See Attachment 1)

Recommendation 2: Receiving

We recommend that the campus:

- a. Document policies and procedures for the receiving department.
- b. Localize accountability for entries to the integrated purchasing and accounts payable systems' receipt-certification entry screens.

September 20, 2001 Campus Response

a. We concur. The Manager of Distribution Services has prepared written operating procedures for the receiving and delivery functions. (See Attachment 2.a.)

b. We concur. Effective March 21, 2001, the practice of sharing FRS passwords by student assistants was discontinued in the Receiving Department. If future workload dictates that such access is required, students will be provided a separate log-in ID and password. (See Attachment 2.b.)

Recommendation 3: Travel Claims

We recommend that the campus strengthen controls to ensure that travel claims are supported with proper documentation.

September 20, 2001 Campus Response

We concur. It should be noted that each claim sampled contained supporting receipts, although in four cases they were uncertified copies of the original receipts. Also, although three travel claims did not substantiate the basis for conversion of foreign expenses into U.S. dollars, subsequent testing proved that in each case the amount paid was within the high/low tolerance of the currency conversion software which was adopted for use subsequent to the dates of the claims chosen for sampling.

We have used, and continue to use, currency conversion software consistently since its implementation. In addition, any receipt copies submitted in lieu of an original are now certified to be a true and correct copy by the Traveler and the Travel Coordinator. (See Attachment 3)

Recommendation 4: Change and Purchase Funds

We recommend that the campus strengthen procedures to ensure that change and purchase funds are appropriately counted, issued, and assigned.

September 20, 2001 Campus Response

We concur. Immediate steps will be taken to insure the appropriate handling of change and purchase funds. Campus procedures will be strengthened with items cited in the audit resolved by October 1, 2001.

Recommendation 5: Compensatory Time Off

We recommend that the campus consult with the chancellor's office on requirements for paying accumulated CTO to employees who move from represented to exempt positions.

September 20, 2001 Campus Response

During the weeks of September 4th and September 10th, contact was made with the Human Resources Division of the Chancellor's Office, specifically, Pamela Chapin, Sr. Manager, Benefits and Salary. Since there are currently no written guidelines or

*San Francisco State University
Response to FISMA Audit #01-04*

regulations with respect to paying accumulated CTO to employees who move from represented to exempt positions, Pam Chapin indicated that she would address the issue with her supervisor, Cathy Robinson, Senior Director for Human Resources Administration. A copy of the FISMA Audit recommendation has been submitted to Pam Chapin for reference.

Although we have already implemented the recommendation we request that the entire finding and recommendation be deleted from the report since there is apparently no requirement to pay off the CTO in this situation.

Recommendation 6: Employment Eligibility Verification

We recommend that the campus strengthen procedures to ensure that all new appointments comply with federal employment regulations at the beginning of employment.

September 20, 2001 Campus Response

We concur. The staff I-9 verification process has been centralized in the Department of Human Resources and is efficient. The FISMA Audit revealed untimely completion of I-9 forms for faculty. Previously, the academic departments have administered the I-9's for faculty and have retained the documents.

The campus has revised procedures concerning Form I-9 Employment Eligibility Verification for faculty. The procedures now require that the academic departments submit the I-9 Authorization to Human Resources with all other required employment documents for faculty at the time of hire. All academic departments were notified of the new requirement in an August 13, 2001 memo. (See Attachment 6)

Recommendation 7: Property Records

We recommend that the campus:

- a. Capitalize only those assets with a unit acquisition cost of at least \$5,000.
- b. Record purchased capitalized property at the purchase price, plus all incidental costs incurred to put the asset into place and ready for its intended use.
- c. Record capitalized property acquired by gift or transfer based on valuations that can be supported by adequate documentation.

*San Francisco State University
Response to FISMA Audit #01-04*

September 20, 2001 Campus Response

- a. We concur. All assets valued at \$5,000 or more are capitalized. This policy went into effect February 2001. (See Attachment 7.a.)
 - b. We concur. The Director of Procurement will work with the Manager of Distribution Services to establish a procedure to insure that assets are recorded at the correct price, including all incidental costs. Analysis, development and implementation of procedures will be completed by October 31, 2001.
 - c. The University has a written policy and forms for accepting donations and transfers of property, which include the requirement for obtaining an independent appraisal of items valued in excess of \$5,000. The Director of Procurement has instructed the Manager of Distribution Services to insure Property Office staff has received required documentation before items are accepted and recorded. In addition, the Director has instructed the Property Office that estimates obtained other than through a formal appraisal will require verification by an independent, knowledgeable third party.
-

Recommendation 8: Reconciliation of General Ledger with Property Records

We recommend that the campus:

- a. Reconcile property inventory records against the general ledger balances for the same period.
- b. Prepare property reconciliations within 30 days of the preceding month.

September 20, 2001 Campus Response

We concur. The Director of Procurement and the Manager of Distribution Services will review and revise the procedure for the monthly reconciliation of the property records. The objective will be for the Property Office to receive proper and complete information on a timely basis, allowing the Property Accountant to perform monthly reconciliation of the property records to the general ledger, and to report the information in a clear format, to be reviewed each month by the Director. Analysis, development and implementation of procedures will be completed by October 30, 2001.

Recommendation 9: Property Survey Reports

We recommend that the campus review and strengthen property survey procedures to ensure compliance with internal control requirements.

September 20, 2001 Campus Response

We concur. The Director of Procurement has been appointed the new chair of the University Property Board and will take an active role in reviewing the disposition of university property. Initiatives will include revising the survey form to more clearly evaluate equipment condition and recommended method of disposition, and clearly establishing the responsibility for determining and/or approving appropriate disposition procedures. The Property Board will review survey activity at regular meetings, to insure proper reporting and control of property dispositions. Implementation of procedures, forms, reporting formats, etc. will be completed by November 30, 2001.

Recommendation 10: Physical Inventory

We recommend that the campus:

- a. Document the date of inventory and the name of the inventory taker on count worksheets.
- b. Complete its reconciliation of the physical inventory and report the results to management.

September 20, 2001 Campus Response

- a. We concur. The Manager of Distribution Services has already implemented a policy requiring that the inventory worksheets be signed and dated by the person performing the inventory.
 - b. We concur. The Property Board will review the results of all physical inventories. The Board will escalate requests for clarification of open items to appropriate management within a campus unit until discrepancies are resolved. The Board will approve the results of physical inventories, recommendations regarding discrepancies and/or missing equipment, and reconciling entries to accounting records on a regular basis and submit a summary of this activity to the AVP for Fiscal Affairs and the VP of Business and Finance. Implementation of procedures and reporting formats will be in place for the quarter ending December 31, 2001.
-

Recommendation 11: Fiscal Information Technology

We recommend that additional or increased security for the Oracle application of the ARM database be sought out in addition to continued and frequent monitoring of the audit log tables.

September 20, 2001 Campus Response

We concur. A solution to address this recommendation has been implemented. The specific actions we have taken to comply with this recommendation are:

- Set up enhanced audit logs on the two primary ARM data tables (CHARGES and PAYMENTS) so that modifications of a type prohibited by the ARM application will be logged whenever they occur by some other means. The logs are reviewed regularly by DoIT application managers. The logs contain enough information to pinpoint the source of the change and to rollback the data to a previous state if necessary.
- Remove an exposure of a vital schema password by providing a dedicated log-in for the CASHNet posting process with very limited permissions.
- Set up a system where the primary ARM schema account is never accessible to non-DoIT personnel. The ARM batch run account has been made inaccessible to users in the production database, but as part of the daily transfer to the test and reporting databases, it is re-enabled for their use with a different password.
- Provided that no user accounts have SQL access on the production database.

An alternate solution, relying more on Oracle features, is being explored with Oracle Consulting. Should this prove feasible, it would offer a more efficient solution. This solution is based on having all registered application screens log into a central security management account before being re-logged in to the actual destination account using a system-internal password. This would prevent an Oracle user from accessing their account by any means other than a registered application.

The feasibility of such a system is currently being explored via a preliminary design. Also, this would require a new account/security management system. Following the preliminary design, an assessment of such a system will occur during the next calendar year. Should this alternate solution not prove viable, the initial solution will remain in effect.

San Francisco State University
Response to FISMA Audit #01-04

Recommendation 12: Trust Funds (Expenditures)

We recommend that the campus strengthen controls to ensure expenditures meet the criteria for disbursement as stated in the trust agreements.

September 20, 2001 Campus Response

We concur. Fiscal Affairs' staff will work with individual departments to insure they fully understand their responsibility to make all disbursements in accordance with the established disbursement criteria provided in each Trust agreement. An educational campaign will be completed by October 31, 2001.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

October 31, 2001

CHICO

MEMORANDUM

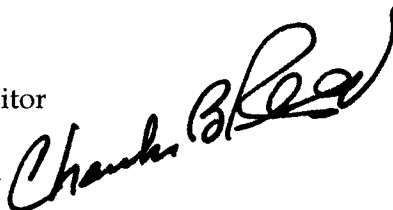
DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-04 on *FISMA*,
San Francisco State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 31, 2001, I accept the response as submitted with the draft final report on *FISMA*, San Francisco State University.

MONTEREY BAY

NORTHRIDGE

POMONA

LM:ac

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Robert A. Corrigan, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS