

**FISMA**

**CALIFORNIA MARITIME ACADEMY**

**Report Number 04-10**

**May 9, 2005**

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## **ABBREVIATIONS**

CMA	California Maritime Academy
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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## EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by Government Code, Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

California Maritime Academy (CMA) 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 (SAM), Education Code, Title 5, and Trustee policy.

We visited the CMA campus from December 6, 2004, through February 4, 2005, and made a study and evaluation of the accounting and administrative control in effect as of February 4, 2005. This report represents our biennial review.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report.

In our opinion, CMA's accounting and administrative control in effect as of February 4, 2005, 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 changes 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.

The following summary provides 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 [5]**

Cashiering and accounts receivable functions were not properly segregated, and accumulated deposits of \$25,000 were not consistently remitted to the State Treasury at required intervals.

### **PAYROLL AND PERSONNEL [6]**

Employee separation procedures did not ensure timely payment of wages due. A review of ten employee separations disclosed three instances where an employee separated and the final salary payment was not completed within 72 hours from the date of separation.

### **FIXED ASSETS [7]**

Property reconciliations were not signed and dated by the preparer or reviewer.

### **FISCAL INFORMATION TECHNOLOGY [7]**

There were no authorization or monitoring controls over the use of Oracle IDs that allowed modification of production PeopleSoft data, and PeopleSoft delivered user IDs and operator classes had not been deleted. In addition, the data center was not equipped with fire suppression equipment that could help minimize damage to computing equipment in the event of a fire.

### **INVESTMENTS [9]**

Investment reconciliations were not prepared in a timely manner.

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## 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.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual (SUAM) guidelines.

### **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International 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. 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 2003/2004 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 2004 to December 2004. Our primary focus was on internal controls. Specifically, we reviewed and tested:

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INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ 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 accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ 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 February 4, 2005. 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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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

#### **SEGREGATION OF DUTIES**

Cashiering and accounts receivable functions were not adequately segregated.

We noted that the individual responsible for processing receivables also performed cashiering duties, and had the combination to the main cashier's safe.

State Administrative Manual (SAM) §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

The controller stated that due to turnover, sufficient staff was not currently available to provide such segregation.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

#### **Recommendation 1**

We recommend that the campus establish controls to ensure the appropriate segregation of duties or establish mitigating controls where incompatible duties occur.

#### **Campus Response**

We concur. Our limited staffing levels often leave us in a position of needing to reassign duties in order to provide service to our constituents. In these instances where we do not have sufficient staff to ensure proper segregation of duties, as a result of such things as turnover, vacation, and/or illness, we will establish mitigating controls to minimize the risk of impropriety. Our policy and procedures for doing so shall be in place prior to September 1, 2005.

### **REMITTANCES TO THE STATE TREASURER**

Remittances of monies to the State Treasury did not occur with the required frequency.

We found that during the period June 2004 through December 2004, accumulated deposits of \$25,000 were not consistently remitted by the first day of the week following the accumulation.

SAM §8091 requires agencies to remit all monies determined to be revenue, reimbursements, abatements, and operating revenue to the State Treasury within 30 days following the date collected, regardless of the amount, unless more frequent remittances are required by law, regulation, or

circumstance. Accumulated deposits of \$25,000 will be remitted as soon as possible, but not later than the first day of the week following the accumulation.

The accounting manager stated that the delayed frequency for remittance of monies to the State Treasury was attributed to the resources required to implement a new version of PeopleSoft during the period reviewed.

Not remitting monies to the State Treasury at prescribed frequencies results in lost interest income.

### **Recommendation 2**

We recommend that the campus strengthen controls to ensure that monies are remitted to the State Treasury at prescribed frequency intervals.

### **Campus Response**

We concur. This has always been a requirement. Staff training will be conducted to communicate and reinforce this requirement. All procedures will be updated and communicated to staff prior to September 1, 2005.

## **PAYROLL AND PERSONNEL**

Employee separation procedures did not ensure timely payment of wages due.

Our review of ten employee separations between January 2004 and December 2004 disclosed three instances where an employee separated and the final salary payment was not completed within 72 hours from the date of separation.

California State University (CSU) Coded Memorandum Human Resources (HR) 2003-15, Attachment B, states that Labor Code Sections 201 and 202 require the CSU to pay separating employees in a specified time frame. Payment of owed wages to discharged and resigned employees is treated differently in the Labor Code. An employee who is discharged must be paid wages earned immediately. An employee who resigns from employment must be paid wages earned no later than 72 hours from the date of separation. However, if the employee provides the employer at least 72 hours notice of his/her impending separation, he/she is entitled to owed wages at the time of separation.

The payroll and benefits officer stated that final payment was sometimes delayed to avoid overpayment of wages.

Insufficient administration of employee separations increases the risk of late wage payments, and violations of the Labor Code, resulting in penalties to the CSU.

### **Recommendation 3**

We recommend that the campus review and strengthen employee separation procedures to ensure timely payment of wages.

### **Campus Response**

We concur. We will review, strengthen, and communicate our policy and procedures requiring timely payment of wages due to separating employees by September 1, 2005.

## **FIXED ASSETS**

Property reconciliations were not signed and dated by the preparer or reviewer.

SAM §7908 states that all reconciliations show the name of the preparer and the reviewer along with the date prepared and reviewed.

The controller stated that the property reconciliations were not signed and dated due to oversight.

Inadequate control over property reconciliations compromises accountability.

### **Recommendation 4**

We recommend that the campus strengthen controls to ensure that the preparer and reviewer sign and date all property reconciliations.

### **Campus Response**

We concur. We do require that all reconciliations be signed and dated by the preparer and reviewer. This requirement has been communicated to the staff and will be monitored to ensure compliance. This shall be done by August 1, 2005.

## **FISCAL INFORMATION TECHNOLOGY**

### **DATA ACCESS**

There were no authorization or monitoring controls over the use of Oracle IDs that allowed modification of production PeopleSoft data, and unused PeopleSoft delivered IDs and operator classes had not been deleted.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective account management. Effective account

management is considered to include an appropriate authorization and monitoring of accounts that have access to production data files.

The chief information officer stated that guidelines had not yet been established for monitoring the use of production Oracle accounts. He further stated that unused PeopleSoft IDs had not been deleted due to oversight.

Inadequate control over the use and monitoring of accounts with access to production data increases the risk of unauthorized and undetected modification of production data, while obsolete accounts and security roles increase the risk of unauthorized and undetected access to campus systems and confidential data.

### **Recommendation 5**

We recommend that the campus implement a process for authorizing and monitoring the use of IDs with access to production data to ensure that all such access is authorized and appropriate and take the appropriate steps to ensure the deletion of unused PeopleSoft delivered IDs and operator classes.

### **Campus Response**

We concur. A formal process for authorizing and monitoring the use of IDs in the production environment shall be implemented and communicated to staff by August 1, 2005.

## **DATA CENTER ENVIRONMENTAL CONTROLS**

The data center was not equipped with fire suppression equipment that could help minimize damage to computing equipment in the event of a fire.

SAM §4842.2 states that physical security measures must provide for management control of physical access to information assets by agency staff and outsiders; prevention, detection, and suppression of fires; prevention, detection, and minimization of water damage; and protection, detection, and minimization of loss or disruption of operational capabilities due to electrical power fluctuations or failure.

The chief information officer stated that fire suppression equipment was being considered but had not yet been purchased.

Lack of fire suppression equipment increases the risk of catastrophic loss of computing equipment and data processing capability.

### **Recommendation 6**

We recommend that the campus conduct a cost/benefit assessment of suppression systems versus the business impact of equipment replacement and impaired production due to a loss of or damage to computing equipment and, should the assessment indicate such, implement a fire suppression system.

**Campus Response**

We concur. A cost/benefit assessment of the suppression systems in information technology will be performed by November 1, 2005.

**INVESTMENTS**

The campus did not prepare investment reconciliations in a timely manner.

During our review of reconciliations in December 2004, we noted that the July through October 2004 reconciliations were not completed until December 2004.

SAM §7900 states that all reconciliations be prepared within 30 days of the preceding month.

The controller stated investment reconciliations were not timely prepared due to turnover.

Failure to prepare investment reconciliations in a timely manner increases the risk that errors and irregularities will not be detected.

**Recommendation 7**

We recommend that the campus reconcile investment accounts within 30 days of the preceding month.

**Campus Response**

We concur. All investment accounts shall be reconciled within 30 days of the preceding month. This shall be implemented immediately.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
William B. Eisenhardt	President
Tera Bisbee	Director of Human Resources
Louis Bones	Director of Dining Services
Vineeta Dhillon	Purchasing Officer
La Tanya Edington	Accounts Receivable Analyst
Gale Gomez	Cashier
Jill Johns	Budget Officer
Bonnie King	Accounts Payable Lead
Gay Kvilhaug	General Ledger Accountant
Susan McElwee	General Ledger Accountant
Mark Nickerson	Vice President of Financial Affairs
Diane Rawicz	Director of CMA Services
Christy Redford	Accounting Manager
Cheri Sims	Payroll and Benefits Officer
Earl Summers	Chief Information Officer
Kathy Theobald	Admissions Office
Kenneth Toet	Controller, CMA and CMA Foundation
Shelrey Woodson	Course Coordinator

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

Internal accounting and related operational controls established by the State of California, the California State University 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 that 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 recordkeeping 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.



RECEIVED  
UNIVERSITY AUDITOR

JUL - 5 2005

THE CALIFORNIA STATE  
UNIVERSITY

June 30, 2005

Mr. Larry Mandel  
University Auditor  
California State University  
Office of the Chancellor  
401 Golden Shore  
Long Beach, CA 90802

Dear Larry,

Attached are our responses to the audit findings articulated in Report Number 04-10, May 9, 2005.

Please let me know if I can be of further assistance.

Sincerely,

Mark P. Nickerson  
Vice President for Administration and Finance  
California Maritime Academy

cc: William Eisenhardt, President  
Ken Toet, Controller  
file

MPN/ss

**THE CALIFORNIA MARITIME ACADEMY**

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**Campus Response**

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**DATA CENTER ENVIRONMENTAL CONTROLS**

**Recommendation 6**

We recommend that the campus conduct a cost/benefit assessment of suppression systems versus the business impact of equipment replacement and impaired production due to a loss of or damage to computing equipment and, should the assessment indicate such, implement a fire suppression system.

**Campus Response**

We concur. A cost benefit assessment of the suppression systems in IT will be performed by November 1, 2005.

## INVESTMENTS

### **Recommendation 7**

We recommend that the campus reconcile investment accounts within 30 days of the preceding month.

### **Campus Response**

We concur. All investment accounts shall be reconciled within 30 days of the preceding month. This shall be implemented immediately.

