

**FISMA**  
**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,**  
**POMONA**

**Audit Report 06-07**  
**February 9, 2007**

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## **ABBREVIATIONS**

CMS	Common Management Systems
CSPUP	California State Polytechnic University, Pomona
CSU	California State University
CTO	Compensatory Time Off
FISMA	Financial Integrity and State Manager's Accountability Act
FLSA	Fair Labor Standards Act
HR	Human Resources
SA	Student Administration
SAM	State Administrative Manual
SHS	Student Health Services
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 State Polytechnic University, Pomona (CSPUP) 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.

We visited the CSPUP campus from October 2, 2006, through November 17, 2006, and made a study and evaluation of the accounting and administrative control in effect as of November 17, 2006. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, purchasing, payroll and personnel, fixed assets, fiscal information technology, 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, CSPUP's accounting and administrative control in effect as of November 17, 2006, 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 [6]**

Although checks were locked up overnight, checks were not restrictively endorsed on the day of receipt at student health services. Reconciliations of uncleared collections were not timely prepared, and variances were not timely investigated and resolved. A review of uncleared collection reconciliations for January 2006 through July 2006 disclosed that each of the reconciliations were prepared and reviewed on September 11, 2006, and September 12, 2006, respectively. In addition, reconciliation variances ranged from \$406,413 to \$292,565.

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

Pursuit of delinquent third-party and student accounts receivables needed improvement. The campus was unable to provide documentation that collection activities had been performed for 5 of the 20 third-party receivables reviewed and 4 of the 10 student receivables reviewed.

### **PURCHASING [8]**

Open purchase orders were not always timely investigated and resolved. A review of open purchase orders as of August 31, 2006, disclosed seven from 2003 and 2004 with unspent encumbrances totaling \$78,116.

### **PAYROLL AND PERSONNEL [9]**

Some employees were not paid for compensatory time off (CTO) in accordance with their respective bargaining unit contracts and the Fair Labor Standards Act. A review of 12 CTO accruals at December 31, 2005, showed that three accruals exceeded the maximum allowable accrual and were not paid by February 1, 2006, or by the time of this review. Two of these accruals, with a maximum allowable accrual of 120 hours, totaled 142.50 and 157.13 hours. The remaining accrual, with a maximum allowable accrual of 480 hours, totaled 499.50 hours.

### **FIXED ASSETS [10]**

Property reconciliations were neither timely prepared nor properly completed. Property reconciliations had been prepared for May 2005 and June 2005, but not again until June 2006 when activity for fiscal year 2005/06 was reconciled. This is a repeat finding from the last FISMA audit. In addition, the reconciliations were not signed and dated by the preparer and reviewer.

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

There was no written disaster recovery plan for the data center. In addition, passwords were not required to be changed at regular time intervals, and the authentication system used for accessing applications did not lock user accounts after repeated unsuccessful password attempts.

## **TRUST FUNDS [14]**

Certain trust projects had negative cash balances. A review of trust account balances as of June 30, 2006, disclosed that seven trust projects had negative cash balances totaling \$215,566 and ranged from \$1,109 to \$165,378.

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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 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 2005/06 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was January 2005 to August 2006. 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 November 17, 2006. 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**

#### **SATELLITE CASHIERING**

Checks were not restrictively endorsed on the day of receipt at student health services (SHS).

We visited SHS on October 4, 2006, and noted that, although checks were locked up overnight, checks were not restrictively endorsed on the day received.

State Administrative Manual (SAM) §8034.1 and §8023 require checks and other negotiable instruments to be endorsed on the day they are received.

The associate director of business operations stated that the failure to ensure correct restrictive endorsement procedures was due to the limited number of endorsement stamps issued campuswide when the campus changed banks and the one stamp issued to SHS was kept in the pharmacy.

Inadequate control over cash receipts increases campus exposure to loss from inappropriate acts.

#### **Recommendation 1**

We recommend that the campus provide SHS with an additional endorsement stamp or modify procedures to permit shared use of the one endorsement stamp such that all checks received by SHS are restrictively endorsed on the day of receipt.

#### **Campus Response**

We concur. We will provide SHS with an additional endorsement stamp to endorse all checks on the day of receipt.

Timeline: March 30, 2007

### **UNCLEARED COLLECTIONS**

Reconciliations of uncleared collections were not timely prepared, and variances were not timely investigated and resolved.

Our review of the uncleared collections reconciliations for January 2006 through July 2006 disclosed that each of the reconciliations was prepared and reviewed on September 11, 2006, and September 12, 2006, respectively. In addition, with the exception of no variance on the reconciliation at year-end (June 2006), the variances ranged from \$406,413 to \$292,565. The current variance at August 2006 was \$5,186, which management believed was related to the April 2004 conversion from Banner to PeopleSoft.

SAM §7901 states that all reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

SAM §10508 states, in part, that varying circumstances determine the clearance of uncleared collections and that items should be cleared at least once each quarter.

The director of accounting services stated his belief that these situations had been overlooked because accounting operations had experienced several management changes over the past couple of years.

Failure to timely prepare reconciliations of uncleared collections and investigate and resolve variances limits the campus' ability to detect errors and regularities and may delay proper revenue recognition.

### **Recommendation 2**

We recommend that the campus strengthen procedures to ensure that reconciliations of uncleared collections are timely prepared and variances are timely investigated and resolved.

### **Campus Response**

We concur. The campus has caught up with the backlog and has prepared reconciliations through January 31, 2007. The difference between the detail and the general ledger control has remained constant for November 2006, December 2006, and January 2007. The campus will record the appropriate journal entry to take care of the difference in March 2007.

Timeline: March 30, 2007

## **ACCOUNTS RECEIVABLE**

Pursuit of delinquent third-party and student accounts receivables needed improvement.

### **Third-Party**

The campus was unable to provide documentation that collection activities had been performed for 5 (all Calmecco) of the 20 third-party accounts receivables reviewed.

### **Student Receivables**

The campus was unable to provide documentation that collection activities had been performed between fall 2004 and fall 2005 for 4 of the 10 student receivables reviewed.

State University Administrative Manual (SUAM) §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, and utilization of the offset claim procedures for accounts greater than \$10.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including a sequence of three collection letters at 30-day intervals with a progressively stronger tone and specific requirements for filing applications for Discharge From Accountability (Form STD. 27) with the State Controller's Office.

The director of accounting services stated that there were a limited number of vendors that provided the services that Calmecco did. He further stated that attempts made to resolve delinquent accounts receivable had been escalated to senior management, but had not always been formally documented. In addition, he stated that delinquent student receivables were not timely managed due to management oversight.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

### **Recommendation 3**

We recommend that the campus strengthen procedures to ensure that documented collection efforts are promptly pursued for all delinquent third-party and student accounts receivables.

### **Campus Response**

We concur. We will strengthen campus procedures to ensure that documented collection efforts are promptly pursued for all delinquent third-party and student accounts receivables.

Timeline: March 30, 2007

## **PURCHASING**

Open purchase orders were not always timely investigated and resolved.

Our review of open purchase orders as of August 31, 2006, disclosed seven from 2003 and 2004 with unspent encumbrances totaling \$78,116.

SAM §8340 states that as expenditures are recorded on claims, amounts will be posted to reduce the related encumbrance amount. For partial orders, many automated systems will liquidate the encumbrance for the same amount as the expenditure. However, if it is determined that encumbrance amounts are materially misstated, either over or underestimated, adjustments will be recorded to more accurately reflect the expected expenditure. The encumbrance is fully liquidated when the order is

fully satisfied. Estimated decreases will be recorded as a minus amount. This will decrease the unliquidated encumbrance amount and increase the unencumbered balance.

SAM §8422.20 states the agency shall develop procedures to follow-up on open purchase documents/contracts to determine whether all goods and services ordered are actually received.

SAM §20050 states that the elements of a satisfactory system of accounting and administrative control shall include, in part, recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures, and an effective system of internal review.

The interim manager of procurement and support services stated her belief that the open purchase orders in question were previously assigned to buyers who had since separated from the campus. She further stated that reassignment of all of their cases had not been fully made due to oversight.

Failure to investigate and resolve long-outstanding encumbered purchase orders could impair budget analysis and planning and result in less than optimal decision making.

#### **Recommendation 4**

We recommend that the campus strengthen monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

#### **Campus Response**

We concur. The procurement department will strengthen follow-up procedures for the review of open purchase orders to ensure that issues are resolved and orders are closed in a timely manner.

Timeline: March 30, 2007

## **PAYROLL AND PERSONNEL**

Some employees were not paid for compensatory time off (CTO) in accordance with their respective bargaining unit contracts and the Fair Labor Standards Act (FLSA).

Our review of 12 CTO accruals at December 31, 2005, showed that three accruals exceeded the maximum allowable accrual and were not paid by February 1, 2006, or by the time of this review. Two of these accruals, with a maximum allowable accrual of 120 hours, totaled 142.50 and 157.13 hours. The remaining accrual, with a maximum allowable accrual of 480 hours, totaled 499.50 hours.

Bargaining Unit Contract (R07 and R09) states, in part, that CTO should be taken within the year it is earned whenever possible. If an employee has been unable to take his/her CTO and has a CTO balance in excess of one hundred twenty (120) hours as of December 31, he/she shall be paid in cash

for all hours in excess of one hundred twenty (120). Such payment shall be made by February 1 of each year.

The FLSA states, in part, that a public safety employee (Bargaining Unit R08) may not accrue more than 480 CTO hours. Once such an employee accrues 480 hours, he/she should be paid overtime in cash until the accrued CTO balance falls below 480.

The director of payroll services stated that CTO for the three cases cited had not been paid due to oversight.

Failure to pay excess CTO increases the risk of non-compliance with bargaining unit contracts and the FLSA and exposes the campus to liability for breach of contract.

### **Recommendation 5**

We recommend that the campus strengthen controls over the monitoring of maximum CTO accruals and the payment of CTO beyond established maximums.

### **Campus Response**

We concur. In the cases for the employees in Bargaining Units 7 and 9, the excess CTO has been paid. For the Unit 8 employee, due to amount of hours in excess, a timeline will be established with the department and the employee to bring the balance down by June 30. Any excess not used by the timeline will be paid to the employee. This is consistent with how California State University (CSU) addressed excess balances of other leave types this year with this collective bargaining unit.

The procedure to monitor excess balances will be strengthened by reconciling payments of excess balances against reports used to identify excess credits. The scheduling of these events will take place in order to comply with deadlines prescribed by FLSA and collective bargaining agreements.

Timeline: April 30, 2007

## **FIXED ASSETS**

Property reconciliations were neither timely prepared nor properly completed.

We noted that:

- ▶ Property reconciliations had been prepared for May 2005 and June 2005, but not again until June 2006 when activity for fiscal year 2005/06 (through June 30, 2006) was reconciled. This is a repeat finding from the last Financial Integrity and State Manager's Accountability Act audit.
- ▶ The reconciliations were not signed and dated by the preparer and reviewer.

SAM §7924 states at least quarterly or monthly, depending upon the volume of property transactions, agencies will reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

The director of accounting services stated that the campus discovered problems with its property ledger while initially entering data, which prevented its use as a reconciling tool. He further stated that attempts were being made to correct outstanding issues with the system so that property could be completely reconciled.

Inadequate control over property accounting increases the risk of misstated property records and theft or loss of state property.

### **Recommendation 6**

We recommend that the campus take immediate action to develop workable reconciliation procedures for its property, including the preparation of reconciliations on at least a quarterly basis that have been signed and dated by the preparer and reviewer.

### **Campus Response**

We concur. The campus will develop reconciliation procedures for its property on a quarterly basis that will be signed and dated by the preparer and reviewer.

Timeline: April 30, 2007

## **FISCAL INFORMATION TECHNOLOGY**

### **DISASTER RECOVERY PLAN**

There was no written disaster recovery plan for the data center.

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 a plan to resume operation following a disaster affecting those applications.

The CSU *Information Security Policy*, dated August 2002, states that campuses must have plans and procedures for the protection of data against natural, accidental, and intentional disasters, which include disaster recovery planning.

The associate vice president of instructional and information technology stated that the campus had recently completed making significant changes to its information technology environment and an updated disaster plan would be delayed until changes to the environment were complete.

The absence of a current and comprehensive information technology disaster recovery plan increases the risk that the campus may not be able to restore computer operations within a reasonable time frame.

### **Recommendation 7**

We recommend that the campus create and test a disaster recovery plan for the data center.

### **Campus Response**

We concur. The campus is in the process of updating the instructional and information technology disaster recovery plan. The Business Continuity Planning Committee has been charged with updating the different components of the plan that cover the recovery of the data center.

Procedures and processes will be updated to reflect the changes in the current environment in July 2007. The plan will be tested in September 2007 to ensure that critical business activities and support services that rely on the data center can be recovered when a disaster occurs.

Timeline: September 30, 2007

## **PASSWORD SECURITY**

Passwords were not required to be changed at regular time intervals.

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.

The director of instructional and information technology applications stated that some password controls that the campus did not consider to be more effective in preventing unauthorized access had not been activated.

The absence of comprehensive password controls increases the risk that passwords may be compromised and could lead to unauthorized or inappropriate access.

### **Recommendation 8**

We recommend that the campus amend its password controls to require that passwords be changed regularly to ensure appropriate security of campus data.

### **Campus Response**

We concur. The campus is in the process of making several changes to ensure that appropriate controls are in place to secure campus data. When passwords are used to access campus data, they will need to meet a minimum password complexity standard. Users will also be required to change their password on a regular basis, at least annually.

Timeline: December 21, 2007

### **UNSUCCESSFUL LOGON ATTEMPTS**

The authentication system used for accessing applications did not lock user accounts after repeated unsuccessful password attempts.

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.

The director of instructional and information technology applications stated that the effect on application access of the new authentication methodology had not been fully considered.

The absence of comprehensive system access controls increases the risk that systems may be compromised and could lead to unauthorized or inappropriate access.

### **Recommendation 9**

We recommend that the campus implement effective system access controls to ensure that invalid access attempts are detected and limited.

### **Campus Response**

We concur. The campus had turned off password controls on the human resources/student administration (HR/SA) side of the PeopleSoft application per the security administration recommendation in PeopleBooks. The campus had turned on the password controls on the finance side for users (such as developers). The password controls designed to prevent unauthorized access to PeopleSoft applications after repeated failed attempts were, as a result, inconsistent between the HR/SA and finance PeopleSoft application. Password controls to PeopleSoft applications will be changed to detect unauthorized access attempts and PeopleSoft accounts will be locked after repeated unsuccessful password attempts.

Timeline: December 21, 2007

## TRUST FUNDS

Certain trust projects had negative cash balances.

Our review of trust account balances as of June 30, 2006, disclosed that seven trust projects had negative cash balances totaling \$215,566 and ranged from \$1,109 to \$165,378.

SUAM §3710.01 states that each trust project must maintain a positive cash balance.

The associate vice president of finance and administrative affairs and associate chief financial officer stated that the negative trust project cash balances were likely due to trust funds from financial aid and student accounting and scholarships. The director of accounting services stated that trust balances were closely monitored and communicated to fund signatories.

Failure to maintain positive cash balances in trust projects increases the risk of monetary loss and lack of funds for trust disbursements.

### **Recommendation 10**

We recommend that the campus:

- a. Strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances.
- b. Ensure that interest is paid to those accounts whose positive balances are used to offset negative balances.

### **Campus Response**

We concur. We will strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances. We will ensure that interest is paid to those accounts whose positive balances are used to offset negative balances.

Timeline: July 1, 2007

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
J. Michael Ortiz	President
Sheryl Adams	Accounting Technician, University Financial Services
Anita Aguirre	Administrative Analyst, Procurement and Support Services
Cathy Baker	Administrative Services Coordinator, Student Health Services (SHS)
Kathy Barbosa	Lead Accountant, University Financial Services
Edwin Barnes, III	Interim Vice President, Administrative Affairs and Interim Chief Financial Officer
Lisa Bauer	Accountant, Student Accounting Services
Debra Brum	Vice President of Instructional and Information Technology and Chief Information Officer
Mauricio Calderon	Director of Instructional and Information Technology Applications and CMS Technical Director
Michael Candelaria	Warehouse Worker, Procurement and Support Services
Amy Cher	Accountant, Student Accounts/Cashier Services
Cheryl Cincush	System Coordinator, Student Accounts/Cashier Services
Brian Corcoran	Accounts Payable Supervisor
Beth Crisostomo	Collection Specialist, Student Accounts
Stephanie Doda	Associate Vice President of Instructional and Information Technology
Barbara Hacker	Associate Vice President, Faculty Affairs
Kathy Harper	Administrative Support Coordinator, Finance and Administrative Affairs
Charlene Hernandez	Accounting Lead, Student Accounting Services
Myvan Hua	Coordinator, Student Accounting Services
Michael Karns	Inventory Officer, Procurement and Support Services
Gabriel Kuri	Senior Network Analyst
Darwin Labordo	Associate Vice President, Finance and Administrative Affairs and Associate Chief Financial Officer
Jessie Leonar	Accounting Technician II, Student Accounting Services
Daniel Manson	Information Security Officer
Mary Martinez	Coordinator, Payroll Services
Shelly Montoya	Accounts Payable Supervisor, University Financial Services
Ramona Neri	Receptionist, SHS
Manisha Patel	Accountant, General Accounting
Daryl Patton	Director of Internal Audits
Susan Reese	Interim Director of Instructional and Information Technology
Lorraine Rodriguez	Buyer, Procurement and Support Services
Debra Schneck	Interim Manager, Procurement and Support Services
Angelina Schultz	Director, Student Accounting Services
Jane Self	Director, Payroll Services
Ronald Shields	Parking Supervisor, Parking and Transportation Services
Kathy Spofford	Associate Director of Business Operations, SHS
Gwen Steven	Accounting Technician, University Financial Services
Rozalyn Tarrant	Operations and Production Associate, Bronco Copy 'N Mail

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APPENDIX A: PERSONNEL CONTACTED

**Name**

**Title**

Janis Thomas  
Al Viteri

Administrative Assistant, Parking and Transportation Services  
Interim Director of Procurement and Support Services and  
Director of Accounting Services

Linda Wheeler  
Glendy Yeh

Vault Cashier, Student Account/Cashier Services  
Director, Administrative Information Systems

## **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.



## CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

Office of the Vice President  
for Administrative Affairs

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MAR - 6 2007

THE CALIFORNIA STATE  
UNIVERSITY

March 2, 2007

Mr. Larry Mandel, University Auditor  
Office of the Auditor  
The California State University  
400 Golden Shore, Suite 210  
Long Beach, CA 90802

Dear Mr. Mandel:

**Subject: Campus Response to Recommendations of FISMA 06-07**

Enclosed is California State Polytechnic's campus response to the FISMA Audit Report 06-07. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report's recommendations.

Please direct questions concerning the response to Darwin Labordo, Associate Vice President of Finance and Administrative Services at 909-869-2008 or [dlabordo@csupomona.edu](mailto:dlabordo@csupomona.edu).

Sincerely,

Edwin A. Barnes, III, Interim Vice President  
Administrative Affairs

Cc: J. Michael Ortiz, President  
Debra Brum, Vice President of Instructional & Information Technology  
Darwin Labordo, Associate Vice President, Finance & Administrative Services  
Sharon Reiter, Administrator-in-Charge, Diversity, Human Resources & Employee Services

Enclosure

**FISMA**

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,  
POMONA**

**Audit Report 06-07  
February 9, 2007**

**CASH RECEIPTS**

**SATELLITE CASHIERING**

**Recommendation 1**

We recommend that the campus provide SHS with an additional endorsement stamp or modify procedures to permit shared use of the one endorsement stamp such that all checks received by SHS are restrictively endorsed on the day of receipt.

**Campus Response**

We concur. We will provide Student Health Center (SHS) with an additional endorsement stamp to endorse all checks on the day of receipt.

Timeline: March 30, 2007

**UNCLEARED COLLECTIONS**

**Recommendation 2**

We recommend that the campus strengthen procedures to ensure that reconciliations of uncleared collections are timely prepared and variances are timely investigated and resolved.

**Campus Response**

We concur. The campus has caught up with the backlog and has prepared reconciliations through January 31, 2007. The difference between the detail and the G/L control has remained constant for November 2006, December 2006, and January 2007. The campus will record the appropriate journal entry to take care of the difference in March 2007.

Timeline: March 30, 2007

2-1

## ACCOUNTS RECEIVABLE

### Recommendation 3

We recommend that the campus strengthen procedures to ensure that documented collection efforts are promptly pursued for all delinquent third-party and student accounts receivables.

### Campus Response

We concur. We will strengthen campus procedures to ensure that documented collection efforts are promptly pursued for all delinquent third-party and student accounts receivables.

Timeline: March 30, 2007

## PURCHASING

### Recommendation 4

We recommend that the campus strengthen monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

### Campus Response

We concur. The Procurement department will strengthen follow-up procedures for the review of open purchase orders to ensure that issues are resolved and orders are closed in a timely manner.

Timeline: March 30, 2007

## PAYROLL AND PERSONNEL

### Recommendation 5

We recommend that the campus strengthen controls over the monitoring of maximum CTO accruals and the payment of CTO beyond established maximums.

### Campus Response

We concur. In the cases for the employees in Bargaining Units 7 and 9, the excess CTO has been paid. For Unit 8 employee, due to amount of hours in excess, a timeline will be established with the department and the employee to bring the balance down by June 30. Any excess not used by the timeline will be paid to the employee. This is consistent with how CSU addressed excess balances of other leave types this year with this collective bargaining unit.

The procedure to monitor excess balances will be strengthened by reconciling payments of excess balances against reports used to identify excess credits. The scheduling of these events will take

place in order to comply with deadlines prescribed by FLSA and collective bargaining agreements.

Timeline: April 30, 2007

## **FIXED ASSETS**

### **Recommendation 6**

We recommend that the campus take immediate action to develop workable reconciliation procedures for its property, including the preparation of reconciliations on at least a quarterly basis that have been signed and dated by the preparer and reviewer.

### **Campus Response**

We concur. The campus will develop reconciliation procedures for its property on a quarterly basis that will be signed and dated by the preparer and reviewer.

Timeline: April 30, 2007

## **FISCAL INFORMATION TECHNOLOGY**

### **DISASTER RECOVERY PLAN**

#### **Recommendation 7**

We recommend that the campus create and test a disaster recovery plan for the data center.

#### **Campus Response**

We concur. The campus is in the process of updating the I&IT Disaster Recovery plan. The Business Continuity Planning Committee has been charged with updating the different components of the plan that cover the recovery of the data center.

Procedures and processes will be updated to reflect the changes in the current environment in July 2007. The plan will be tested in September 2007 to ensure that critical business activities and support services that rely on the data center can be recovered when a disaster occurs.

Timeline: September 30, 2007

### **PASSWORD SECURITY**

#### **Recommendation 8**

We recommend that the campus amend its password controls to require that passwords be changed regularly to ensure appropriate security of campus data.

**Campus Response**

We concur. The campus is in the process of making several changes to ensure that appropriate controls are in place to secure campus data. When passwords are used to access campus data, they will need to meet a minimum password complexity standard. Users will also be required to change their password on a regular basis, at least annually.

Timeline: December 21, 2007

**UNSUCCESSFUL LOGON ATTEMPTS****Recommendation 9**

We recommend that the campus implement effective system access controls to ensure that invalid access attempts are detected and limited.

**Campus Response**

We concur. The campus had turned off password controls on the HR/SA side of the PeopleSoft application, per the Security Administration recommendation in PeopleBooks. The campus had turned on the password controls on the finance side for users (such as developers). The password controls designed to prevent unauthorized access to PeopleSoft applications after repeated failed attempts were as a result, inconsistent between the HR/SA and Finance PeopleSoft application. Password controls to PeopleSoft applications will be changed to detect unauthorized access attempts and PeopleSoft accounts will be locked after repeated unsuccessful password attempts.

Timeline: December 21, 2007

**TRUST FUNDS****Recommendation 10**

We recommend that the campus:

- a. Strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances.
- b. Ensure that interest is paid to those accounts whose positive balances are used to offset negative balances.

**Campus Response**

We concur. We will strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances. We will ensure that interest is paid to those accounts whose positive balances are used to offset negative balances.

Timeline: July 1, 2007



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

March 26, 2007

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

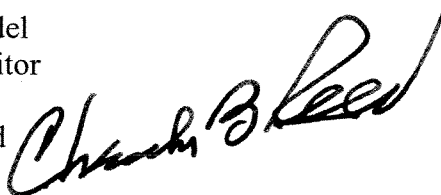
**MEMORANDUM**

EAST BAY

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 06-07 on *FISMA*,  
California State Polytechnic University, Pomona

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of March 26, 2007, I accept the response as submitted with the draft final report on *FISMA*, California State Polytechnic University, Pomona.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Edwin A. Barnes, III, Interim Vice President, Administrative Affairs and  
Interim Chief Financial Officer  
Dr. J. Michael Ortiz, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS