

FISMA
CALIFORNIA MARITIME ACADEMY

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ABBREVIATIONS

CIO	Chief Information Officer
CMA	California Maritime Academy
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
IT	Information Technology
PMCP	Policy Manual for Contracting and Procurement
SAM	State Administrative Manual

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, Education Code, Title 5, and Trustee policy.

We visited the CMA campus from November 27, 2006, through January 12, 2007, and made a study and evaluation of the accounting and administrative control in effect as of January 12, 2007. 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, purchasing, cash disbursements, 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, due to the effect of the weaknesses described above, CMA's accounting and administrative control in effect as of January 12, 2007, 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]

Cash control weaknesses were found at the main cashier's office and all three satellite cashiering areas visited. Accountability for press-numbered receipts was not adequately controlled, accountability for checks was not always localized, transfer receipts were not always used, and the main cashier's mailbox was not adequately secured. Concession tickets were not properly secured, concession ticket sales were not reconciled to receipts and revenue recorded in the general ledger, and a proper segregation of duties was not maintained for concession ticket sales at events. Prepaid meal tickets were not adequately controlled, and their sales were not reconciled to receipts and revenue recorded in the general ledger. Further, accountability for receipts was not localized and non-managerial employees were granted unauthorized access to the cashiering system at dining services. In addition, sales of services were not reconciled to receipts and revenue recorded in the general ledger and receipts were not timely transmitted at the student health center. Lastly, documentation of individuals with access to safes was outdated and did not include the date the combination was last changed at continuing education and the student health center.

PURCHASING [10]

Procurement card controls were not always adequately enforced. Prohibited and restricted transactions were either purchased or purchased without an approved justification, reconciliations were not always timely submitted, itemized receipts were not always provided, and a purchase outside of procurement card guidelines was noted. In addition, open purchase orders were not always timely investigated and resolved, library personnel performed purchasing functions without a signed and dated written delegation of authority from the campus president or designee, and 3 of 24 purchase requisitions were not signed by authorized personnel.

CASH DISBURSEMENTS [13]

Five disbursement checks exceeding \$50,000 were not signed by the appropriate signatory.

PAYROLL AND PERSONNEL [14]

Federal I-9 forms did not always include the date employment began in the certification and were not always dated by the employee. In addition, overtime calculations were incorrectly calculated for certain employees with multiple concurrent positions, and the payroll department's mailbox was not adequately secured, which exposed sensitive employee personal data.

FIXED ASSETS [17]

Property survey reports were not completed for the disposition of three fixed assets since the prior FISMA review, and state property was not always tagged. Eight of the ten fixed assets reviewed lacked a CMA identification tag.

FISCAL INFORMATION TECHNOLOGY [18]

The data center was not equipped with fire suppression equipment that could help minimize damage to computing equipment in the event of a fire, and the campus was unable to provide a current disaster recovery plan. In addition, the campus did not perform periodic monitoring of computers to ensure that vulnerabilities had been addressed and patches applied, and password controls did not enforce password change or prevent their reuse.

TRUST FUNDS [21]

Trust fund agreements were not always complete and current. A review of ten trust fund agreements disclosed that none was signed by the authorized signatory, and authorized signatories for trust disbursements were outdated for two of the agreements.

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 September 2006. Our primary focus was on internal controls. Specifically, we reviewed and tested:

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 January 12, 2007. 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

Cash control weaknesses were found at the main cashier's office and all three satellite cashiering areas visited.

The satellite cashiering locations reviewed included dining services, continuing education, and the student health center.

Main Cashier's Office

We found that:

- ▶ Accountability for press-numbered receipts was not adequately controlled. Recipient signatures were not obtained when receipt books were checked out to satellite cashiering locations.
- ▶ Accountability for checks was not always localized. Payments received via mail by the campus receptionist were sometimes opened, sorted, and distributed to the cashiering locations or departments via inter-campus mail without being logged.
- ▶ Certain mail receipts were not adequately safeguarded. The main cashier's mailbox was in plain sight and accessible to the general public and contained opened mail with payments enclosed, salary warrants, and other negotiable instruments.

Dining Services

We found that:

- ▶ Inventories of concession tickets used for food and beverage sales at events were not properly secured. The tickets were maintained in an unlocked file cabinet.
- ▶ Concession ticket sales were not reconciled to receipts and revenue recorded in the general ledger.
- ▶ A proper segregation of duties was not maintained for concession ticket sales at events because a single employee was designated the custodian of the change fund, acted as cashier during events, tallied the receipts subsequent to the event, signed off on the cashier's drawer log worksheet, and made the deposit.
- ▶ Sales of meal tickets to employees and visitors were not adequately controlled. Prepaid meal ticket sales were not reconciled to receipts and revenue recorded in the general ledger. In addition, the numerical sequences of meal tickets were not accounted for during or subsequent to their usage.

- ▶ Separate cash drawers or unique cashier login IDs were not used to localize accountability of receipts to a specific employee from receipt to deposit.
- ▶ Non-managerial employees were granted unauthorized access to the cashiering system. The manager's user ID card was loosely circulated to non-managerial employees, which granted them cashiering access to initiate work sessions, void transactions, and close out the daily session.

Continuing Education

We found that documentation of individuals with access to the safe was incomplete and outdated. The listing of employees with knowledge of the safe combination included the employees' positions, but not their names. In addition, the list disclosed a position that no longer had safe combination knowledge and did not include the date the combination was last changed.

Student Health Center

We found that:

- ▶ Manual press-numbered receipts ordered from an outside vendor were not accounted for upon delivery or subsequent to their use, and were not always secured when not in use.
- ▶ Sales of massage therapy and other services were not reconciled to receipts and revenue recorded in the general ledger.
- ▶ A prelisting of checks was not prepared for checks received that were either erroneously addressed or intended for another department. Further, the checks were forwarded to the main cashier or the intended departments via inter-campus mail without the use of transfer receipts.
- ▶ Receipts were not transmitted to the main cashiering office for deposit as frequently as prescribed. Our review of the deposit log showed a total of seven deposits from March 21, 2006, to November 27, 2006, (a combined total of 252 days), which averaged one deposit every 36 days.
- ▶ Documentation of individuals with access the safe was outdated and incomplete. The listing of employees with knowledge of the safe combination included an employee that did not have safe access, and the list did not include the date the combination was last changed.

State Administrative Manual (SAM) §8020 states that an inventory control will be kept for press-numbered receipts.

SAM §8021 requires that a separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

California State University (CSU) directive HR 2005-16, *Requirements for Protecting Confidential Personal Data*, dated April 8, 2005, states that each campus and the chancellor's office must take necessary measures to protect confidential personal information, which includes, but is not limited to, social security numbers.

SAM §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

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

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: maintaining books of original entry, receiving and depositing remittances, inputting receipts information, and reconciling input to output.

SAM §11024 states, in part, that each ticket selling unit will, on each day that meal tickets are sold or returned for credit, report the following information:

- ▶ The total value of guest meal ticket and employee meal ticket book sales.
- ▶ The total value of guest meal ticket and employee meal ticket book sales for cash.
- ▶ The total value of employee meal ticket books sold for payment by payroll deduction.
- ▶ The total value of unused meal tickets returned by the purchaser for credit or refund.

The CSU *Information Security Policy*, dated August 2002, states that campus policies and procedures should provide for individual unique user ID/passwords (no shared IDs).

SAM §8024 requires the campus to retain a record listing the names of persons knowing the present safe combination and the date the combination was last changed, and to change the safe combination when employees leave a department.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency will be prelisted by the person opening the mail to localize accountability of these assets.

The California Maritime Academy (CMA) *Student Health Center Cash Handling Policy* states deposits to the CMA campus cashier must occur no less than every ten days.

The CMA *Cash Handling Policy* states that collections must be remitted to the cashier no less than weekly or when receipts total \$500.

The controller stated that controls over cash receipts were inconsistent in areas experiencing leadership changes, staffing vacancies, temporary workers, and new employees. The controller further added that it was an oversight that cash transfer sheets for receipts were not prepared. He also stated that the campus mailroom had been in use for many years in an older facility and would require a substantial building modification to provide proper security over sensitive information.

Inadequate control over cash receipts and sensitive information increases campus exposure to loss and liability from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Require recipient signatures when the main cashier's office issues press-numbered receipt books to satellite cashiering locations and strengthen controls over the use of press-numbered receipts, including inventory control at the student health center.
- b. Implement the use of transfer receipts at the receptionist's desk and student health center when forwarding checks to the main cashier or other locations, and establish procedures to prepare a prelisting of currency and checks received not payable to the university at the student health center.
- c. Secure the main cashier's mailbox.
- d. Secure concession tickets at all times, even when not in use at the event, and prepare documented reconciliations of concession ticket sales to revenue recorded in the general ledger.
- e. Review cashiering duties at dining services and take appropriate action to either segregate duties or establish mitigating controls for concession ticket sales.
- f. Develop and implement inventory control procedures for prepaid meal tickets and prepare documented reconciliations of ticket sales to revenue recorded in the general ledger for dining services.
- g. Localize accountability over receipts at dining services when multiple cashiers use the same cash register.
- h. Ensure that only managerial employees have access to a manager user ID card, each manager should have his/her unique user ID card.

- i. Update the written records of individuals with knowledge of the continuing education and student health center safe combinations to include the names of persons with current knowledge and the date the combination was last changed.
- j. Prepare documented reconciliations of service sales to revenue recorded in the general ledger for the student health center.
- k. Strengthen controls to ensure that all student health center receipts are deposited in a timely manner (within ten working days of receipt).

Campus Response

We concur with findings a-k above. We will review our current policies and procedures for cash handling and make appropriate modifications to strengthen controls in this area. All modifications will be in place by July 1, 2007.

PURCHASING

PROCUREMENT CARDS

Procurement card controls were not always adequately enforced.

Our review of 17 procurement card reconciliations for the months of September 2006 and October 2006 disclosed that:

- ▶ In eight instances totaling \$3,624, prohibited and restricted transactions of food, gift certificates, and computer related items were either purchased or purchased without an approved justification from the cardholder's approving officer or the director of information security (for computer related purchases).
- ▶ In five instances, the departments did not submit the reconciled transactions to accounts payable in a timely manner. The reconciliations were received between 3 and 16 days after the accounts payable due date.
- ▶ Itemized receipts were not submitted to support four transactions totaling \$993.
- ▶ In one instance, the procurement card was used for a purchase that was not within the intended purposes of the procurement card guidelines. This purchase totaled \$8,994 and was related to building fire code updates.

The *CMA Procurement Handbook* states, in part, that authorized cardholders use the ProCard to purchase allowable small dollar goods for the university. Additionally, the card should be used as the first option to obtain supplies and services costing less than \$5,000 including tax.

The department is responsible for submitting reconciled transactions to accounts payable by the 10th of each month. Restricted transactions, when charged on the credit card must be accompanied by a justification approved by the cardholder's approving officer. If the goods or services are "restricted," the ProCard may still be used if established approvals and criteria are met, which includes approval from the director of information security for computer related purchases.

The director of procurement stated that the submission of prohibited and restricted transactions without approval, late submission of reconciled statements, and the lack of itemized receipts were due to oversight of the users and/or approving officials.

Insufficient control over procurement cards increases the risk of loss from inappropriate acts.

Recommendation 2

We recommend that the campus strengthen enforcement of its procurement card policy.

Campus Response

We concur. The campus shall strengthen its enforcement of procurement card policy by communicating policy and providing additional training for all who are involved with procurement cards. This will be achieved by July 1, 2007.

OPEN PURCHASE ORDERS

Open purchase orders were not always timely investigated and resolved.

Our review of open purchase orders as of November 30, 2006, disclosed three open purchase orders from October 2005 and December 2005 with unspent encumbrances totaling \$38,704.

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.

The director of procurement stated that the three purchase orders were encumbered against auxiliary funds without any expiration dates, and therefore were allowed to roll until the projects were completed.

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 3

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

Campus Response

The director of procurement will reconcile SAM18A with SAM6 quarterly. As with all reconciliations, the preparer and reviewer shall sign and date the reconciliation to document the oversight of this process. This will be in place by May 1, 2007.

DELEGATION OF AUTHORITY

Library personnel performed purchasing functions without a signed and dated written delegation of authority from the campus president or designee.

Executive Order 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, delegates the authority to each campus president or designee to acquire personal property and services including information technology (IT) resources, goods, and services where applicable provisions of the *CSU Policy Manual for Contracting and Procurement (PMCP)*, issued and maintained by the Office of the Chancellor, have been followed.

The *CSU PMCP* §102 states that should campus presidents choose to further delegate their purchasing authority, campuses must maintain documentation of such delegation.

The director of procurement stated her belief that the existing purchasing function document was sufficient.

Failure to maintain formalized delegations of authority for all procurement activities increases the risk of unauthorized activities.

Recommendation 4

We recommend that the campus obtain a formalized delegation of authority from the president or designee for library purchasing.

Campus Response

We concur. A delegation of authority document assigning limited purchasing functions to the library director will be in place by May 1, 2007.

PURCHASE REQUISITIONS

Purchase requisitions were not always signed.

Our review of 24 purchases from January 2005 to July 2006 disclosed that in three instances the purchase requisition was not signed by authorized personnel.

The *CMA Procurement Policy* states, in part, that purchases over \$500 (\$1,000 in 2006/07) require purchase requisitions initiated and approved by department managers.

SAM §3550 states, in part, that purchase estimates are initiated by the state agency to effect purchases, to provide management and the central budgetary authority with budgetary control over purchases, to serve as a formal requisition, and to provide an accounting record of purchases in process.

The director of procurement stated that in one instance, no signature was obtained due to oversight. She further stated that in the other two instances, the transactions were formally bid and neither the final amount of the order nor the vendor were known at the initial phases when a requisition was typically completed. She added that given the size of the campus, key management players were involved at every level of high value transactions.

Failure to ensure that all purchase requisitions are signed by department managers increases the risk of unauthorized purchases.

Recommendation 5

We recommend that the campus strengthen procedures to ensure that purchase requisitions are properly approved prior to ordering goods and services.

Campus Response

We concur. No encumbrances will be entered into the financial system without a signed and approved requisition, including formal bids or request for proposals where the contractor and/or amounts are not known at the beginning of the process. This procedure shall be communicated to accounting and procurement staff by May 1, 2007.

CASH DISBURSEMENTS

Disbursement checks were not always signed by the appropriate signatory.

Our review of 27 payment transactions disclosed five disbursement checks dated between January 2005 and July 2006 exceeding \$50,000 that were not signed by the appropriate signatory. The amount of the checks written exceeded the signers' authorized signature level.

CMA *Signature Authorization* identifies those individuals authorized to sign checks and their authorized signature level.

The controller stated that controls had been overridden in specific instances to pay vendors during staffing vacancies, and the checks signed by individuals without the appropriate authorization level were oversights.

Inadequate monitoring of signature authorization limits increases the risk of unauthorized and inappropriate payments.

Recommendation 6

We recommend that the campus strengthen controls to ensure that checks are signed by individuals within their authorized signature level.

Campus Response

We concur. Our plan is to develop a business process, which will include a form for each check run listing the checks requiring special signatures. The accounts payable lead will ensure and document that the required signatures were obtained prior to the checks being mailed. This control will be in place by June 1, 2007.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Federal I-9 forms were not always properly completed.

Our review of ten new hire transactions disclosed that the employment start date was not included in the Form I-9 certification in three instances. In once instance, the employee did not date the Form I-9.

The Department of Justice, Immigration and Naturalization Handbook for Employers (Instructions for completing Form I-9), states that section 1 of the form must be completed by the employee at the time of hire, which is the actual beginning of employment. The handbook also states that the employer is responsible for ensuring that section 1 is fully, timely, and properly completed. Further, section 2 must be completed by the employer; including the date employment begins in the certification.

The director of human resources stated that some of the problems with dates on I-9 forms might be due to managers who have hired employees without going through the proper human resources process. She further stated that I-9 forms had not always been dated by the employee because the

official completing the form had not always been aware that this is an important piece of information that needed to be completed.

Failure to complete employment eligibility verification in an accurate manner increases the risk of non-compliance with federal employment regulations.

Recommendation 7

We recommend that the campus strengthen procedures to ensure that I-9 forms are accurately completed.

Campus Response

We concur. We will strengthen procedures to ensure that I-9 forms are timely and accurately completed. This will be completed by May 1, 2007.

OVERTIME CALCULATIONS

Overtime calculations were not always accurate.

Our review of ten overtime payments from July 31, 2006, to October 31, 2006, disclosed that two had been incorrectly calculated.

SAM §8540 states, in part, that care should be exercised in recording the overtime hours on the monthly attendance reports and overtime records of the employing state agency.

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

The director of human resources stated that in some cases where employees were in multiple concurrent positions, overtime calculations had been inaccurate because the calculations were very complex and manually performed. She further stated that collective bargaining agreement increases were often retroactive for many months, and while the State Controller's Office would automatically go back and update automated calculations retroactively, the campus payroll office had not always remembered to go back and update the manual calculations retroactively for each month. She added that absence and additional time worked reports had sometimes been misplaced or misfiled, and therefore not available for review.

Failure to correctly calculate overtime increases the risk of inaccurate overtime payments and non-compliance with federal and state regulations.

Recommendation 8

We recommend that the campus implement mitigating controls and generate automated calculations to facilitate the process and limit the risk of inaccurate overtime payouts.

Campus Response

We concur. The campus will implement mitigating controls and generate automated calculations to limit the risk of inaccurate overtime payouts by May 1, 2007.

PROTECTION OF CONFIDENTIAL DATA

The payroll department's mailbox was not adequately secured.

We noted that the payroll department's mailbox was located in plain sight and easily accessible to the general public. We found that the mailbox consisted of time and attendance records and other payroll documents, which contained highly sensitive employee personal data (i.e., address, social security number, payroll information, etc.).

CSU directive HR 2005-16, *Requirements for Protecting Confidential Personal Data*, dated April 8, 2005, states that each campus and the chancellor's office must take necessary measures to protect confidential personal information, which includes, but is not limited to, social security numbers.

The controller stated that the campus mailroom had been in use for many years in an older facility and would require a substantial building modification to provide proper security over sensitive information.

Inadequate control over payroll data, especially those containing personal confidential information, increases the risk of loss and campus exposure to information security breaches.

Recommendation 9

We recommend that the campus establish mitigating controls to ensure that payroll department sensitive personal data is appropriately safeguarded at all times.

Campus Response

We concur. The campus will establish mitigation controls to ensure that sensitive personal data is appropriately safeguarded at all times by May 1, 2007.

FIXED ASSETS

PROPERTY DISPOSITIONS

Property survey reports were not completed for the disposition of fixed assets.

Our review of the three asset deletions since the prior Financial Integrity and State Manager's Accountability Act (FISMA) review disclosed that property survey reports were not on file. One of the deletions was related to an asset theft/loss.

SAM §3520.3 states that when an agency proposes to dispose of state-owned, non-expendable surplus property by sale, by trade-in or turning it over to the state and federal Property Reuse Program Office, or by discarding the property, the agency prepares a Property Survey Report (STD. 152).

SAM §8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report form, STD. 152, and adjust their property accounting records.

The controller stated that the lack of documentation was due to oversight when fixed asset duties were assigned to less experienced staff after a vacancy in the accounting department.

Insufficient control over fixed assets increases the risk of misstated property records and unreported loss of state property.

Recommendation 10

We recommend that the campus strengthen procedures to ensure that property survey reports are completed for the disposition of fixed assets, including those related to theft/loss of property.

Campus Response

We concur. Any future dispositions of assets will be reported to the Survey Board and a copy of the STD. 152 will be attached to the deletion journal entry paperwork. A monthly reconciliation between dispositions recorded on the general ledger and the STD. for 152 on file with the Survey Board shall be conducted no less than quarterly beginning July 1, 2007.

PROPERTY IDENTIFICATION

State property was not always tagged.

Our review disclosed that eight of the ten fixed assets reviewed lacked a CMA identification tag. These assets ranged in acquisition cost from \$5,047 to \$24,965.

CMA property tagging requirements state that all purchases in excess of \$499 will be tagged and properly documented at the warehouse prior to use at the CMA.

SAM §8651 states that all state property will be tagged after acquisition. This includes property, which does not meet all of the state's capitalization requirements. The purpose of tagging assets is to designate the assets as belonging to the state. Tags will be placed so that they are in plain sight and easy to read.

The controller stated that this was an oversight and that a prolonged vacancy in the receiving department contributed to the assets not being properly tagged.

Insufficient control over state property increases the risk of unidentifiable state property in the midst of theft, loss, or unauthorized use of state property.

Recommendation 11

We recommend that the campus strengthen procedures to ensure that state property is properly tagged prior to use.

Campus Response

We concur. We will strengthen procedures to ensure property is properly tagged prior to use by July 1, 2007.

FISCAL INFORMATION TECHNOLOGY

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 (CIO) stated that fire suppression equipment was being considered, but not yet purchased.

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

Recommendation 12

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.

Campus Response

We concur. We will review and update our cost/benefit assessment and take steps to install a fire suppression system in the data center by June 30, 2007.

DISASTER RECOVERY PLAN

The campus was unable to provide a current disaster recovery plan.

We noted that there had been significant changes in IT personnel since the prior FISMA audit. Further, although the campus was working on an overall business continuity plan, it was unable to produce a current IT disaster recovery plan and believed that prior management took it with them.

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 CIO stated that the campus had recently made significant changes to its IT department and the plan had not yet been updated to reflect such changes.

The absence of a current IT disaster recovery plan increases the risk that the campus may be unable to restore computer operations within a reasonable time frame.

Recommendation 13

We recommend that the campus prepare a current disaster recovery plan to reflect the existing environment.

Campus Response

We concur. The campus will prepare a current disaster recovery plan to reflect the existing environment by August 31, 2007.

NETWORK MONITORING

The campus did not perform periodic monitoring of computers to ensure that vulnerabilities had been addressed and patches applied.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective monitoring of networked computers for vulnerabilities.

The network manager stated that many improvements had recently been made to network security and that network monitoring for vulnerabilities and unapplied patches was planned, but not yet implemented.

Failure to monitor the attached systems for vulnerabilities increases the risk of fraudulent or unauthorized activities.

Recommendation 14

We recommend that the campus perform periodic scanning of systems attached to the network to ensure that vulnerabilities are identified and that patches have been applied.

Campus Response

We concur. We will perform periodic scanning of systems attached to the network to ensure that vulnerabilities are identified and that patches have been applied by August 1, 2007.

PASSWORD SECURITY

Password controls did not enforce password change or prevent their reuse.

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 network manager stated that plans were in place to improve password controls and following testing, they would be implemented in January 2007.

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

Recommendation 15

We recommend that the campus amend its password controls to enforce password change and prevent reuse.

Campus Response

We concur. The campus shall strengthen its control over password controls. Passwords shall be required to be “strong” passwords and will be required to be changed every 90 days. This process is already in place. Supporting documentation will be submitted by May 1, 2007.

TRUST FUNDS

Trust fund agreements were not always complete and current.

Our review of ten trust fund agreements disclosed that:

- ▶ None of the agreements was signed by the authorized signatory.
- ▶ Authorized signatories (for trust expenditures) on two trust agreements were not updated. The authorized signatory on the freshman orientation fee fund (#48510) was no longer employed by the campus and no replacement was named. The miscellaneous student fees fund (#48509) listed the prior accounting manager as an authorized signature and did not list the current accounting manager.

SAM §19440 states that each trust account established shall be supported by documentation as to the type of trust donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of monies for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

The controller stated that the campus was in the process of updating all of its campus trust fund agreements, but had not completed the task prior to the audit.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss.

Recommendation 16

We recommend that the campus maintain complete trust fund documentation on file.

Campus Response

We concur. The campus will update all of our trust fund documents by June 30, 2007. We will also implement a process for requesting a trust fund and for reviewing trust fund agreements at least twice a year to ensure signatures are current and appropriate.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
William B. Eisenhardt	President
Walter Abarca	Network Manager
Terilynn Bench	Human Resources Analyst
Tera Bisbee	Director, Human Resources
Veronica Boe	Coordinator, Sponsored Projects and Extended Learning
Balthasar Louis Bones	Director, Dining Services
Patricia Cofran	Accounts Payable Lead
Janette Corpus	Information Security Officer
Vineeta Dhillon	Director, Procurement
Suzanne Dolan	Director, Health Services
LaTanya Edington	Accounts Receivable Technician
Stephen Frazier	Chief Information Officer
Susan Foft	Accounting Manager
Gale Gomez	Cashier
Adriana Hoffmann	Accountant I
Gay Kvilhaug	Accountant I
Mark Nickerson	Vice President, Administration and Finance
Cheri Sims	Payroll/Benefits Officer
Kenneth Toet	Controller
Dana Wood	Student Records Assistant

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

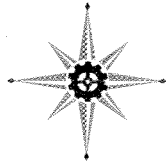
Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

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.



CAL MARITIME

Vice President for Administration and Finance

May 1, 2007

RECEIVED
UNIVERSITY AUDITOR

MAY - 2 2007

THE CALIFORNIA STATE
UNIVERSITY

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

RE: Response to CMA Audit Report 06-08, FISMA.

Dear Mr. Mandel,

Enclosed are our responses to findings from the 06-08 FISMA audit for the California Maritime Academy.

If there is further information that we can provide, please contact me.

Sincerely,

Mark Nickerson
Vice President for Administration and Finance

cc: William B. Eisenhardt, President
Ken Toet, Controller
File

MN:ss

THE CALIFORNIA MARITIME ACADEMY

200 Maritime Academy Drive, Vallejo, CA 94590-8181 • PHONE (707) 654-1038 • FAX (707) 654-1013 • www.csum.edu • E-MAIL mnickerson@csum.edu

FISMA

CALIFORNIA MARITIME ACADEMY

Audit Report 06-08

April 19, 2007

CASH RECEIPTS**Recommendation 1**

We recommend that the campus:

- a. Require recipient signatures when the main cashier's office issues press-numbered receipt books to satellite cashiering locations and strengthen controls over the use of press-numbered receipts, including inventory control at the student health center.
- b. Implement the use of transfer receipts at the receptionist's desk and student health center when forwarding checks to the main cashier or other locations, and establish procedures to prepare a prelisting of currency and checks received not payable to the university at the student health center.
- c. Secure the main cashier's mailbox.
- d. Secure concession tickets at all times, even when not in use at the event, and prepare documented reconciliations of concession ticket sales to revenue recorded in the general ledger.
- e. Review cashiering duties at dining services and take appropriate action to either segregate duties or establish mitigating controls for concession ticket sales.
- f. Develop and implement inventory control procedures for prepaid meal tickets and prepare documented reconciliations of ticket sales to revenue recorded in the general ledger for dining services.
- g. Localize accountability over receipts at dining services when multiple cashiers use the same cash register.
- h. Ensure that only managerial employees have access to a manager user ID card, each manager should have his/her unique user ID card.
- i. Update the written records of individuals with knowledge of the continuing education and student health center safe combinations to include the names of persons with current knowledge and the date the combination was last changed.
- j. Prepare documented reconciliations of service sales to revenue recorded in the general ledger for the student health center.

- k. Strengthen controls to ensure that all student health center receipts are deposited in a timely manner (within ten working days of receipt).

Campus Response

We concur with findings a-k above. We will review our current policies and procedures for cash handling and make appropriate modifications to strengthen controls in this area. All modifications will be in place by July 1, 2007.

PURCHASING

PROCUREMENT CARDS

Recommendation 2

We recommend that the campus strengthen enforcement of its procurement card policy.

Campus Response

We concur. The campus shall strengthen its enforcement of procurement card policy by communicating policy and providing additional training for all who are involved with procurement cards. This will be achieved by July 1, 2007.

OPEN PURCHASE ORDERS

Recommendation 3

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

Campus Response

Director of Procurement will reconcile SAM18A with SAM6 quarterly. As with all reconciliations, the preparer and reviewer shall sign and date the reconciliation to document the oversight of this process. This will be in place by May 1, 2007.

DELEGATION OF AUTHORITY

Recommendation 4

We recommend that the campus obtain a formalized delegation of authority from the president or designee for library purchasing.

Campus Response

We concur. A Delegation of Authority document assigning limited purchasing functions to the library director will be in place by May 1, 2007.

PURCHASE REQUISITIONS

Recommendation 5

We recommend that the campus strengthen procedures to ensure that purchase requisitions are properly approved prior to ordering goods and services.

Campus Response

We concur. No encumbrances will be entered into the financial system without a signed and approved requisition, including formal bids or Request for Proposals where the contractor and/or amounts are not known at the beginning of the process. This procedure shall be communicated to Accounting and Procurement staff by May 1, 2007.

CASH DISBURSEMENTS

Recommendation 6

We recommend that the campus strengthen controls to ensure that checks are signed by individuals within their authorized signature level.

Campus Response

We concur. Our plan is to develop a business process which will include a form for each check run listing the checks requiring special signatures. The AP Lead will ensure and document that the required signatures were obtained prior to the checks being mailed. This control will be in place by June 1, 2007.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Recommendation 7

We recommend that the campus strengthen procedures to ensure that I-9 forms are accurately completed.

Campus Response

We concur with the auditor's recommendation and will strengthen procedures to ensure that I-9 forms are timely and accurately completed. This will be completed by May 1, 2007.

OVERTIME CALCULATIONS

Recommendation 8

We recommend that the campus implement mitigating controls and generate automated calculations to facilitate the process and limit the risk of inaccurate overtime payouts.

Campus Response

We concur. The campus will implement mitigating controls and generate automated calculations to limit the risk of inaccurate overtime payouts by May 1, 2007.

PROTECTION OF CONFIDENTIAL DATA

Recommendation 9

We recommend that the campus establish mitigating controls to ensure that payroll department sensitive personal data is appropriately safeguarded at all times.

Campus Response

We concur. The campus will establish mitigation controls to ensure that sensitive personal data is appropriately safeguarded at all times by May 1, 2007.

FIXED ASSETS

PROPERTY DISPOSITIONS

Recommendation 10

We recommend that the campus strengthen procedures to ensure that property survey reports are completed for the disposition of fixed assets, including those related to theft/loss of property.

Campus Response

We concur. Any future dispositions of assets will be reported to the Survey Board and a copy of the STD 152 will be attached to the deletion JE paperwork. A monthly reconciliation between dispositions recorded on the GL and the STD for 152 on file with the Survey Board shall be conducted no less than quarterly beginning July 1, 2007.

PROPERTY IDENTIFICATION

Recommendation 11

We recommend that the campus strengthen procedures to ensure that state property is properly tagged prior to use.

Campus Response

We concur. We will strengthen procedures to ensure property is properly tagged prior to use by July 1, 2007.

FISCAL INFORMATION TECHNOLOGY

DATA CENTER ENVIRONMENTAL CONTROLS

Recommendation 12

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.

Campus Response

We concur. We will review and update our cost/benefit assessment and take steps to install a fire suppression system in the data center by June 30, 2007.

DISASTER RECOVERY PLAN

Recommendation 13

We recommend that the campus prepare a current disaster recovery plan to reflect the existing environment.

Campus Response

We concur. The campus will prepare a current disaster recovery plan to reflect the existing environment by August 31, 2007.

NETWORK MONITORING

Recommendation 14

We recommend that the campus perform periodic scanning of systems attached to the network to ensure that vulnerabilities are identified and that patches have been applied.

Campus Response

We concur. We will perform periodic scanning of systems attached to the network to ensure that vulnerabilities are identified and that patches have been applied by August 1, 2007.

PASSWORD SECURITY

Recommendation 15

We recommend that the campus amend its password controls to enforce password change and prevent reuse.

Campus Response

We concur. The campus shall strengthen its control over password controls. Passwords shall be required to be “strong” passwords and will be required to be changed every 90 days. This process is already in place. Supporting documentation will be submitted by May 1, 2007.

TRUST FUNDS

Recommendation 16

We recommend that the campus maintain complete trust fund documentation on file.

Campus Response

We concur. The campus will update all of our trust fund documents by June 30, 2007. We will also implement a process for requesting a trust fund, reviewing trust fund agreements at least twice a year to ensure signatures are current and appropriate.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

May 10, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

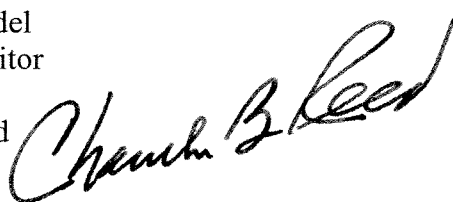
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 06-08 on *FISMA*,
California Maritime Academy

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of May 10, 2007, I accept the response as submitted with the draft final report on *FISMA*, California Maritime Academy.

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. William B. Eisenhardt, President

SAN DIEGO

Mr. Mark Nickerson, Vice President, Administration and Finance

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS