

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
SACRAMENTO**

**Audit Report 06-10  
May 17, 2007**

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## **ABBREVIATIONS**

CCE	College of Continuing Education
CMS	Common Management Systems
CSU	California State University
CSUS	California State University, Sacramento
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
HR	Human Resources
SAM	State Administrative Manual
TEC	Travel Expense Claim

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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 University, Sacramento (CSUS) 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 CSUS campus from December 11, 2006, through February 9, 2007, and made a study and evaluation of the accounting and administrative control in effect as of February 9, 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, accounts receivable, operating fund, payroll and personnel, fixed assets, and fiscal information technology. 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, CSUS's accounting and administrative control in effect as of February 9, 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]**

Adequate segregation of duties and compensating controls were not maintained over certain deposits at the OneCard office. The customer service supervisor, when acting as a cashier, reconciled her own deposits, and manager verification of these deposits was inadequate because although a manager signed the deposit slips, he/she did not always physically count the cash being deposited.

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

Pursuit of delinquent third-party and payroll accounts receivable needed improvement. A review of 23 invoices disclosed that in 11 instances, there was no evidence that a sequence of three collection letters had been sent in 30-day intervals, and in one instance, there was no evidence that a collection letter had been sent at all. A review of ten third-party accounts receivables for student sponsors disclosed that in nine instances, a sequence of three collection letters was not used. In addition, there was no evidence that collection had been pursued through the student directly once it was determined that the third-party sponsors had not paid. A review of 20 payroll accounts receivable for 11 employees disclosed that in five instances, the collection process was not timely and/or adequate overall. This is a repeat finding from the prior FISMA audit.

### **OPERATING FUND [8]**

Travel advances were not always recovered in a timely manner. This is a repeat finding from the prior FISMA audit. Three of ten travel advances reviewed had not been cleared within 60 days after the trip and adequate follow-up had not been performed. Cash count sheets could not always be provided by the campus as evidence that change and purchase funds were counted within the required frequency and some count sheets were not complete. A review of the 82 change and purchase funds maintained by the campus disclosed that in 29 instances, cash count sheets could not be provided as evidence that fund counts were performed at prescribed frequencies. In one instance, there was no evidence that fund counts had been performed at all during the audit period. In five instances, fund count sheets were not signed and/or dated by the campus auditor; in three instances, fund count sheets were not signed by the custodian; and in 31 instances count sheets were not dated by the custodian.

## **PAYROLL AND PERSONNEL [10]**

Federal Form I-9, Employment Eligibility Verification, was not always timely completed or maintained on file. A review of ten new hire transactions dated between May 2005 and October 2006 disclosed that in two instances, Form I-9 was not completed within the required three days, and in one instance, Form I-9 was not provided.

## **FIXED ASSETS [11]**

Differences between physical inventory counts, property tag numbers, and campus property records were not resolved. A review of 12 capitalized assets purchased between February 2005 and November 2006 disclosed two instances where property identification was inaccurate. Further, physical inventory counts were not always performed every three years. A review of the most recent department inventories for five departments disclosed that the physical inventory for one of those departments was last performed on October 16, 2003.

## **FISCAL INFORMATION TECHNOLOGY [13]**

The campus did not have a reliable process for providing desktop software patch management, passwords were not required to be changed at regular time intervals, and the campus had not established policies and procedures for managing the multiple e-mail systems in use.

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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.
- ▶ Operating 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 July 2005 to October 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 operating fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ Procedures for initiating, evaluating, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond February 9, 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.

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

### **CASH RECEIPTS**

Adequate segregation of duties and compensating controls were not maintained over certain deposits at the OneCard office.

We found that the customer service supervisor, when acting as a cashier, reconciled her own deposit entries to cash when preparing the funds for deposit. In addition, manager verification of these deposits was inadequate because although a manager signed the deposit slips, he/she did not always physically count the cash being deposited.

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

The associate vice president of business operations stated that the deposits of the customer service supervisor were not physically verified through a second count as a result of a lack of total understanding of the applicable SAM sections. He further stated his belief that the bank's verification would serve as the second physical count.

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

#### **Recommendation 1**

We recommend that the campus establish procedures to verify deposits made by the customer service supervisor, when acting as a cashier, including a physical count of cash during manager verification of deposits.

#### **Campus Response**

We concur. A procedural change was made during May 2007 to improve controls in this area.

## ACCOUNTS RECEIVABLE

Pursuit of delinquent third-party and payroll accounts receivable needed improvement.

### Third-Party

- ▶ Our review of 23 invoices dated between September 23, 2005, and August 25, 2006, disclosed that in 11 instances, there was no evidence that a sequence of three collection letters had been sent in 30-day intervals. In addition, in one instance, there was no evidence that a collection letter had been sent at all.
- ▶ Our review of ten third-party accounts receivables for student sponsors as of October 31, 2006, disclosed that in nine instances, a sequence of three collection letters was not used. In addition, there was no evidence that collection had been pursued through the student directly once it was determined that the third-party sponsors had not paid.

### Payroll

Our review of 20 payroll accounts receivable for 11 employees as of October 31, 2006, disclosed that in five instances, the collection process was not timely and/or adequate overall. Gaps in collection activity ranged from two to three years from the last to the most recent documented contact. In addition, a sequence of three collection letters had not been sent in 30-day intervals in six instances. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

State University Administrative Manual §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 and §8776.7 provide collection procedures to be employed in the collection of amounts due from third parties and employees, including a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

The collections manager stated that collection efforts, including phone calls, e-mail messages, and office visits, were documented on the cover sheet for each collection file; however, extenuating circumstances, such as employee disputes, bankruptcy, and collective bargaining issues could have contributed to delaying collection efforts. She further stated that due to aggressive collection efforts during the past year and a half, payroll receivables had decreased 60%.

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 2**

We recommend that the campus strengthen procedures to ensure that documented collection efforts are promptly pursued for delinquent accounts receivables.

### **Campus Response**

We concur. The campus will enhance documentation and efforts involved in the collection process. By October 31, 2007, the revised collection process will include:

- a. A modified cover sheet for the collection file to more clearly indicate actions and results of collection efforts.
- b. Collection efforts via phone conversation or office visit will be documented by sending an e-mail to the client. A printed copy of the e-mail communication, labeled as a collection letter, will be kept with the client file.
- c. The CMS accounts receivable billing queries will be revised to further support timely collection efforts.

## **OPERATING FUND**

### **TRAVEL ADVANCES**

Travel advances were not always recovered in a timely manner. This is a repeat finding from the prior FISMA audit.

We found that three of ten travel advances reviewed, issued between February 2006 and October 2006, had not been cleared within 60 days after the trip and adequate follow-up had not been performed. Collection activity had only been performed in two instances and did not include periodic statements sent no less frequently than bi-monthly. Further, the advances had not been deducted from the employees' payroll, as required.

CSU directive HR 2006-25, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated December 18, 2006, indicates that a travel expense claim (TEC) is required to be submitted to substantiate travel expenses within 60 days after the trip. If the advance exceeds the substantiated expenses, the employee must submit a check or money order with the TEC to return the excess advance no more than 120 days after the expense is paid or incurred. If an employee does not substantiate and return any excess advances, if applicable, that amount will be deducted from the next payroll. Prior superseded directives also included the aforementioned requirements.

SAM §8116.2 and §8116.3 require campuses to perform follow-up activity on outstanding travel advances and to deduct uncollected advances from an employee's payroll warrant.

The director of accounts payable and travel stated that despite concerted efforts by management, the former employee responsible for managing travel advances had not followed campus procedures for collections.

Insufficient control over operating fund advances increases the risk that operating funds monies may not be available and decreases the likelihood of collection.

**Recommendation 3**

We recommend that the campus strengthen procedures to ensure that travel advances are more aggressively managed to ensure timely recovery.

**Campus Response**

We concur. During August 2006, the travel advance follow-up duties were reassigned, and established travel advance procedures have been consistently followed.

**CHANGE AND PURCHASE FUNDS**

Cash count sheets could not always be provided by the campus as evidence that change and purchase funds were counted within the required frequency and some count sheets were not complete.

Our review of the 82 change and purchase funds maintained by the campus disclosed that:

- ▶ In 29 instances, cash count sheets could not be provided as evidence that fund counts were performed at prescribed frequencies. In one instance, there was no evidence that fund counts had been performed at all during the audit period.
- ▶ In five instances, fund count sheets were not signed and/or dated by the campus auditor. In three instances, fund count sheets were not signed by the custodian, and in 31 instances count sheets were not dated by the custodian.

SAM §8111.2 states that an employee other than the custodian of the change or petty cash fund will count it in accordance with the following schedule:

<b>Size of Fund</b>	<b>Frequency of Count</b>
\$200 or less	Annually
\$200.01 to \$500	Quarterly
\$500.01 to \$2,500	Monthly

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

The assistant director of the student financial services center/university cashier stated that the required cash counts had been conducted in accordance with the SAM; however, documentation to support those counts had not been retained in accordance with the campus record retention policy. The management auditor stated that the count sheets were not always signed due to oversight, and that the custodians were not always aware of the date field on the campus form and believed that their signature was sufficient to indicate their participation.

Inadequate administration of change and purchase funds increases the risk of loss and inappropriate use of state resources.

#### **Recommendation 4**

We recommend that the campus strengthen procedures to ensure that properly completed count sheets are retained as evidence that independent counts are performed at prescribed frequency intervals.

#### **Campus Response**

We concur. Effective July 1, 2007, the assistant director of student financial services will assume responsibility for all fund counts in accordance with SAM §8111.2. Properly completed count sheets will be retained for audit purposes, as evidence that change funds were counted within the required frequency.

## **PAYROLL AND PERSONNEL**

Federal Form I-9, Employment Eligibility Verification, was not always timely completed or maintained on file.

Our review of ten new hire transactions dated between May 2005 and October 2006 disclosed that in two instances, Form I-9 was not completed within the required three days. The completion time ranged from 13 to 26 days. In one instance, Form I-9 was not provided.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and non-citizens are required to complete Form I-9, Employment Eligibility Verification, at the time of hire, which is the actual beginning of employment. The act requires employers to examine evidence of identity and employment eligibility within three business days of the date employment begins.

The payroll manager stated that the employees did not come to the payroll office in a timely fashion, and the associated departments did not notify the payroll office of all appointments before the employees began work. She further stated that the Form I-9 that was not provided had been misfiled.

Untimely completion and improper maintenance of employment eligibility verification increases the risk of non-compliance with federal employment regulations.

### **Recommendation 5**

We recommend that the campus strengthen procedures to ensure timely completion and proper maintenance of Form I-9.

### **Campus Response**

We concur. Starting February 2007, I-9 forms for students were printed on colored paper to differentiate them from the I-9 forms for staff and faculty. By October 31, 2007, payroll will strengthen its procedures to use the new hire report from CMS to monitor the timely completion of new hire paperwork, and to scan I-9 forms to automate form storage, which would eliminate the possibility of misfiled forms.

## **FIXED ASSETS**

### **PROPERTY PHYSICAL VERIFICATION**

Differences between physical inventory counts, property tag numbers, and campus property records were not resolved.

Our review of 12 capitalized assets purchased between February 2005 and November 2006 disclosed that in two instances, risk management indicated that two scanners with different tag numbers identified as its property were not its property or in its possession. Instead, risk management indicated that a third scanner with a different tag number listed on its property inventory was the only scanner in its possession. We reviewed the risk management physical inventory document further and noted that:

- ▶ The inventory listing generated by the property ledger showed that risk management was in possession of three scanners valued at \$5,780, \$5780, and \$11,560. When risk management completed and returned its inventory document, risk management indicated that only one of the scanners was theirs and that the one listed at \$11,560 was in error and only cost \$5,780. Documentation supported its claim regarding cost.
- ▶ The result was an overstated property value of \$17,340 and two unaccounted scanners with the tag numbers 105027 and 104953. In addition, research showed that the scanner with tag number

104953 had the same serial number as the scanner that the department actually had, number 104877.

SAM §8652, in general, requires a physical count of all property, a reconciliation of the count to accounting records, and management oversight of resulting adjustments.

SAM §8650 requires departments to record specific property information when property is acquired. In addition, departments will keep track of state property, whether capitalized or not, in an automated property accounting system.

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.

The property accounting supervisor stated that corrections to inventory listings had not always been completed due to understaffing and allocation of resources to other areas.

Inadequate control over university property reduces accountability and increases the risk of misstatement of property, theft, and/or loss of state property.

### **Recommendation 6**

We recommend that the campus verify inventories received from departments, resolve “unknown” property items, and strengthen procedures to ensure that future differences between physical inventory counts and property records are timely investigated and resolved.

### **Campus Response**

We concur. The property supervisor and the director of procurement services will make every effort possible to ensure that campus property records are accurate, the departments’ inventories are reviewed timely, and property adjustments are completed. A review of the property manual will be conducted and any needed changes will be made by November 15, 2007.

## **PROPERTY INVENTORY**

Physical inventory counts were not always performed every three years.

The campus performed physical inventory counts of property at the department level. Our review of the most recent department inventories for five departments (foreign languages, risk management services, English, global education, and theater and dance) disclosed that the physical inventory for the theater and dance department was last performed on October 16, 2003.

The campus property inventory policy states that on an 18-month basis, departments are responsible for making a physical count of all of their department equipment and property and reconciling the inventory to campus property accounting inventory records.

SAM §8652 states that departments will make a physical count of all property and reconcile the count with accounting records at least once every three years.

The property accounting supervisor stated that the campus had been behind on some physical inventories due to understaffing and campus resource allocation to other areas of higher priority.

Inadequate control over university property reduces accountability and increases the risk of misstatement of property, theft, and/or loss of state property.

### **Recommendation 7**

We recommend that the campus establish procedures to ensure that all department inventories are performed every 18 months, in accordance with campus policy or at least every three years.

### **Campus Response**

We concur. The university follows established procedures for submitting department inventories for review and adjustments. Property inventory procedures are maintained in the university policy manual, the SAM, and on the property accounting website. Property accounting will make a more diligent effort in obtaining completed inventory reports from the departments and updating the property records. A review of the property manual will be conducted and any needed changes will be made by November 15, 2007.

## **FISCAL INFORMATION TECHNOLOGY**

### **DESKTOP PATCH MANAGEMENT**

The campus did not have a reliable process for providing desktop software patch management.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective security of computing systems. Effective security of computing systems is considered to include an appropriate method for ensuring that security patches are continually applied to all servers and desktop computers.

The manager of network support stated that the technology had been implemented to require all computers connecting to the network to be properly patched, but that such technology had not yet been deployed on a campus-wide basis.

Failure to provide a more reliable process of desktop software patch management increases the risk of compromised campus systems and fraudulent or unauthorized activities.

### **Recommendation 8**

We recommend that the campus:

- a. Perform a review of the risks and mitigating responses to the process for providing desktop software patch management and ensure campus-wide implementation and compliance.
- b. Consider expanding the existing technologies to require that all computers connecting to the network be appropriately patched.

### **Campus Response**

We concur. The following actions will be taken:

- a. By August 31, 2007, the campus will perform a review of risk related to desktop patch management. By October 31, 2007, a policy will be developed requiring up-to-date patching of all campus desktops.
- b. The campus will consider expansion of technologies used to ensure comprehensive desktop patch management and will study the affordability and feasibility of adopting such technologies campus-wide. In particular, the campus will study the effect of segmentation of the campus network and directory services on campus-wide patch management and monitoring. This analysis will be completed by October 31, 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 associate director of administrative information systems 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 9**

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. By October 31, 2007, the campus will create a policy regarding password controls. This policy will require users of fiscal systems to change passwords no less frequently than every 120 days. Users of general campus accounts will be required to change passwords at least yearly. Additionally, the campus will investigate technologies to facilitate campus-wide password change so that user self-service processes can be created.

### **E-MAIL MANAGEMENT**

The campus had not established policies and procedures for managing the multiple e-mail systems in use.

E-mail systems represent a significant threat to network environments, and proper management of such systems is essential to ensure that vulnerabilities are not allowed into the network; incidents are properly escalated; campus usage and retention guidelines are followed; and e-mail addresses are maintained in one location to facilitate campus-wide communications. Our review disclosed that the campus did not require use of specific e-mail systems; consequently, there were multiple e-mail systems used throughout the campus.

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 manager of network support stated that departmental e-mail systems had proliferated prior to the existence of recent threats and vulnerabilities, but that the campus had not yet established policies and procedures for restricting or managing the various systems.

Inadequate management of e-mail systems increases campus susceptibility to network vulnerabilities and inappropriate document retention and may impede campus-wide communications.

### **Recommendation 10**

We recommend that the campus:

- a. Conduct an assessment to determine the number of e-mail systems used by the campus.
- b. Establish policies and procedures for the proper security and management of all e-mail systems.

- c. Consider reducing the number of e-mail systems to make management more efficient and uniform, and to ensure that a repository of all campus e-mail accounts can be maintained and guidelines are followed on a consistent basis.

**Campus Response**

We concur. The following actions will be taken:

- a. By August 31, 2007, the campus will assess the number of e-mail systems on campus.
- b. By October 31, 2007, the campus will establish policies and procedures for e-mail system security.
- c. The campus has already begun considering both reducing the number of e-mail systems on campus and creating a central authoritative repository of e-mail accounts. Guidelines for consistent use of that repository will be developed by October 31, 2007.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Alexander Gonzalez	President
Kendal Chaney-Buttleman	Director of Accounting
Mike Cooling	Network Services Specialist
Darnell Cooper	Accountant I
Gina Curry	Director, Student Financial Services Center
Felice Dinsfried	Financial Services Manager, College of Continuing Education (CCE)
Gary Dunham	Manager, Network Support
Jackie Fierros	Payroll Manager
Marc Fox	Associate Director, Administrative Information Systems
Nancy Fox	Director of University Transportation and Parking Services
Stephen Garcia	Vice President for Administration
Larry Gilbert	Chief Information Officer
Ronald Grant	Associate Vice President of Business Operations
Suzanne Green	Associate Vice President of Financial Services
Justine Heartt	University Controller
Susan Johnson	Director of Accounts Payable and Travel
Elena Larson	Collections Manager
Clint Lee	Director, Business Information Systems
Gina Lombardo	Administrative Analyst, Business Operations
Nancy McCarty	Trust Accountant
Stewart McConnell	Management Auditor
Kathi McCoy	Director of Auditing Services
Gary McFarland	Operations and Network Support Coordinator
Janet Morris	Buyer III
Kent Porter	Associate Vice President of Human Resources
Theo Povondra	Accountant II
David Proschold	OneCard System Administrator
Stephen Scalley	GAAP Accountant
David Shannon	Director of Procurement and Contract Services
Nicole Sharkey	Accountant II
LaVerne Simmons-Barnett	Associate Director of Accounting Services
Teresa Soria	Information Security Officer
Andrea Speir	Financial Services Coordinator, CCE
Amy Trimmer	OneCard Customer Service Supervisor
Pat Vercruyssen	Financial Analyst
Caryl Vickers-Harper	Assistant Director, Student Financial Services Center/University Cashier
David Wagner	Vice President of Human Resources
Thurman Watson	Property Accounting Supervisor

## **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.



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RECEIVED  
UNIVERSITY AUDITOR

JUN 15 2007

THE CALIFORNIA STATE  
UNIVERSITY

June 15, 2007

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

SUBJECT: CAMPUS RESPONSE TO RECOMMENDATIONS OF FISMA AUDIT,  
REPORT #06-10

Dear Mr. Mandel:

We submit the attached document as our response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439.

Sincerely,

Stephen G. Garcia  
Vice President for Administration

SGG: kg

cc: Gina Curry  
Jackie Fierros  
Larry Gilbert  
Alexander Gonzalez  
Ronald Grant  
Suzanne Green  
Justine Heartt  
Kathi McCoy  
Kent Porter  
Dave Shannon  
David Wagner

Enclosure

\\FISMA 06-10 Responses OUA Memo

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
SACRAMENTO**

**Audit Report 06-10  
May 17, 2007**

**CASH RECEIPTS**

**Recommendation 1**

We recommend that the campus establish procedures to verify deposits made by the customer service supervisor, when acting as a cashier, including a physical count of cash during manager verification of deposits.

**Campus Response**

We concur. A procedural change was made during May 2007 to improve controls in this area.

**ACCOUNTS RECEIVABLE**

**Recommendation 2**

We recommend that the campus strengthen procedures to ensure that documented collection efforts are promptly pursued for delinquent accounts receivables.

**Campus Response**

We concur. The campus will enhance documentation and efforts involved in the collection process. By October 31, 2007, the revised collection process will include:

- a. A modified cover sheet for the collection file to more clearly indicate actions and results of collection efforts.
- b. Collection efforts via phone conversation or office visit will be documented by sending an email to the client. A printed copy of the email communication, labeled as a collection letter, will be kept with the client file.
- c. The CMS A/R billing queries will be revised to further support timely collection efforts.

## OPERATING FUND

### TRAVEL ADVANCES

#### Recommendation 3

We recommend that the campus strengthen procedures to ensure that travel advances are more aggressively managed to ensure timely recovery.

#### Campus Response

We concur. During August 2006, the travel advance follow-up duties were reassigned, and established travel advance procedures have been consistently followed.

### CHANGE AND PURCHASE FUNDS

#### Recommendation 4

We recommend that the campus strengthen procedures to ensure that properly completed count sheets are retained as evidence that independent counts are performed at prescribed frequency intervals.

#### Campus Response

We concur. Effective July 1, 2007, the Assistant Director of Student Financial Services will assume responsibility for all fund counts in accordance with SAM §8111.2. Properly completed count sheets will be retained for audit purposes, as evidence that change funds were counted within the required frequency.

## PAYROLL AND PERSONNEL

#### Recommendation 5

We recommend that the campus strengthen procedures to ensure timely completion and proper maintenance of Form I-9.

#### Campus Response

We concur. Starting February 2007, I-9 Forms for students were printed on colored paper to differentiate them from the I-9 Forms for staff and faculty. By October 31, 2007, Payroll will strengthen its procedures to use the new hire report from CMS to monitor the timely completion of new hire paperwork, and to scan I-9 Forms to automate form storage, which would eliminate the possibility of misfiled forms.

## **FIXED ASSETS**

### **PROPERTY PHYSICAL VERIFICATION**

#### **Recommendation 6**

We recommend that the campus verify inventories received from departments, resolve “unknown” property items, and strengthen procedures to ensure that future differences between physical inventory counts and property records are timely investigated and resolved.

#### **Campus Response**

We concur. The Property Supervisor and the Director of Procurement Services will make every effort possible to assure that campus property records are accurate, the departments' inventories are reviewed timely, and property adjustments are completed. A review of the Property Manual will be conducted and any needed changes will be made by November 15, 2007.

### **PROPERTY INVENTORY**

#### **Recommendation 7**

We recommend that the campus establish procedures to ensure that all department inventories are performed every 18 months, in accordance with campus policy or at least every three years.

#### **Campus Response**

We concur. The University follows established procedures for submitting department inventories for review and adjustments. Property inventory procedures are maintained in the University Policy Manual, the State Administrative Manual (SAM), and on the Property Accounting website. Property Accounting will make a more diligent effort in obtaining completed inventory reports from the departments and updating the property records. A review of the Property Manual will be conducted and any needed changes will be made by November 15, 2007.

## **FISCAL INFORMATION TECHNOLOGY**

### **DESKTOP PATCH MANAGEMENT**

#### **Recommendation 8**

We recommend that the campus:

- a. Perform a review of the risks and mitigating responses to the process for providing desktop software patch management and ensure campus-wide implementation and compliance.
- b. Consider expanding the existing technologies to require that all computers connecting to the network be appropriately patched.

**Campus Response**

We concur. The following actions will be taken.

- a. By August 31, 2007, the campus will perform a review of risk related to desktop patch management. By October 31, 2007, a policy will be developed requiring up-to-date patching of all campus desktops.
- b. The campus will consider expansion of technologies used to ensure comprehensive desktop patch management and will study the affordability and feasibility of adopting such technologies campus-wide. In particular, the campus will study the effect of segmentation of the campus network and directory services on campus-wide patch management and monitoring. This analysis will be completed by October 31, 2007.

**PASSWORD SECURITY****Recommendation 9**

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. By October 31, 2007, the campus will create a policy regarding password controls. This policy will require users of fiscal systems to change passwords no less frequently than every 120 days. Users of general campus accounts will be required to change passwords at least yearly. Additionally, the campus will investigate technologies to facilitate campus-wide password change, so that user self-service processes can be created.

**E-MAIL MANAGEMENT****Recommendation 10**

We recommend that the campus:

- a. Conduct an assessment to determine the number of e-mail systems used by the campus.
- b. Establish policies and procedures for the proper security and management of all e-mail systems.
- c. Consider reducing the number of e-mail systems to make management more efficient and uniform, and to ensure that a repository of all campus e-mail accounts can be maintained and guidelines are followed on a consistent basis.

**Campus Response**

We concur. The following actions will be taken.

- a. By August 31, 2007, the campus will assess the number of e-mail systems on campus.
- b. By October 31, 2007, the campus will establish policies and procedures for email system security.
- c. The campus has already begun considering both reducing the number of e-mail systems on campus and creating a central authoritative repository of e-mail accounts. Guidelines for consistent use of that repository will be developed by October 31, 2007.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 27, 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 Report 06-10 on *FISMA*,  
California State University, Sacramento

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of June 27, 2007, I accept the response as submitted with the draft final report on *FISMA*, California State University, Sacramento.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Alexander Gonzalez, President  
Ms. Kathi McCoy, Director of Auditing Services

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS