

FISMA

**CALIFORNIA STATE UNIVERSITY,
EAST BAY**

**Audit Report 08-02
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ABBREVIATIONS

CHP	California Highway Patrol
CSU	California State University
CSUEB	California State University, East Bay
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
HR	Human Resources
RMP	Revenue Management Program
SAM	State Administrative Manual
SCO	State Controller's Office
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, Government Code (GC) Sections 13400 through 13407. 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 GC, 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, East Bay (CSUEB) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with GC, 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.
- ▶ Established controls are not only effective but also promote operational efficiency.
- ▶ 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 CSUEB campus from February 11, 2008, through April 11, 2008, and made a study and evaluation of the accounting and administrative control in effect as of April 11, 2008. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, would result in significant errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, fixed assets, and fiscal information technology. Eleven of the 25 findings were repeats from prior audits and five of the ten were also included in the August 2004 FISMA audit. A related finding regarding the lack of a cost allocation plan to bill campus auxiliaries was also noted in the October 2005 Auxiliary Organizations audit. 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, including the repeat audit findings, CSUEB's accounting and administrative control in effect as of April 11, 2008, taken as a whole, was not 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 [10]

Application and state university fee reconciliations were neither timely nor complete. This is a repeat finding from the prior two FISMA audits. In addition, the campus could not provide a reconciliation of uncleared collections and there was no evidence that items posted to the account were being actively pursued for resolution. This is a repeat finding from the prior two FISMA audits.

ACCOUNTS RECEIVABLE [12]

Billings for services rendered were not always timely invoiced. This is a repeat finding from the prior two FISMA audits. A review of 18 invoices issued between January 2006 and September 2007 disclosed that ten invoices were prepared from 41 to 189 days after the services were provided. In addition, collection activity on past-due third-party and student receivables was not always timely or documented. This is a repeat finding from the prior FISMA audit. A review of 15 outstanding student receivables as of January 31, 2008, noted that the campus was unable to provide 15 documented first collection letters, 13 second collection letters, and six third collection letters. A review of 15 outstanding third-party receivables as of February 6, 2008, noted that the campus could not locate six first collection letters, ten second collection letters, and 12 third collection letters. The collection letters that were provided consisted of copies of the original invoices that were stamped with a past-due notice. In addition, the campus did not have a policy that addressed collection disputes. In two instances, collection activity was delayed due to billing disputes; however, the campus could not provide documentation to evidence that resolution was being pursued. Also, write-off of long-outstanding accounts receivable needed improvement. This is a repeat finding from the prior FISMA audit. The campus had locally written-off six account balances as of March 10, 2008. The six accounts were written-off without the applicable forms documenting collection efforts as required by campus procedures. Two of the six write-offs were over \$1,000 and there was no documentation showing that the campus obtained relief from accountability from the State Controller's Office. The campus could not provide evidence that a cost allocation plan had been prepared since the prior FISMA audit. This is a repeat finding from the prior FISMA audit and the Auxiliary Organizations audit performed in October 2005.

PURCHASING [16]

Purchase orders were not always signed by personnel with appropriate signing authority. Specifically, a review of 28 purchases from March 2006 to September 2007 disclosed two purchase orders, in the amount of \$56,668 and \$71,174, were signed by buyers whose purchase authority limits were \$50,000. In addition, campus policies and procedures for procurement cards needed strengthening. During a review of 12 procurement card statements for 12 cardholders dated between September and December 2007, the campus procurement credit card purchasing handbook was outdated. Campus procurement card policies were not always adequately enforced. Specifically, in two instances, printing services were purchased without prior authorization; itemized receipts were not submitted for five expenses totaling \$423; in one instance, the cardholder purchased fax machine maintenance services which were prohibited by campus policy, and one cardholder's reconciliation was not dated by the cardholder or approving official.

OPERATING FUND [18]

Change funds were not adequately administered. A review of 24 change funds maintained by the campus disclosed that 16 funds were not subject to independent fund counts as frequently as required from January 2006 to September 2007. In two instances, fund count sheets were not signed by the fund custodian. In addition, operating fund reconciliations were not timely prepared and complete. A review of the operating fund reconciliations for October, November, and December 2007, noted that all three of the reconciliations were not signed and dated by the preparer until March 18, 2008, which was 78, 109, and 139 days late, respectively. In addition, all three reconciliations were dated by the reviewer.

CASH DISBURSEMENTS [20]

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. Three users had the ability to process payments as well as add/update the vendor master file within PeopleSoft. In addition, bank reconciliations were not always timely prepared and complete. This is a repeat finding from the prior two FISMA audits. During a review of the bank reconciliations for October, November, and December 2007, the reconciliations for October and November 2007 were prepared 45 and 15 days late, respectively and all three reconciliations were not dated by the reviewer. Lastly, long-outstanding checks were not processed in a timely manner. This is a repeat finding from the prior FISMA audit. Specifically, the most recent list of outstanding checks for December 2007 included 216 checks totaling \$79,169 that were dated December 2006 or earlier.

PAYROLL [23]

Federal Form I-9, Employment Eligibility Verification, was not always timely completed. A review of 18 new hires from January 2006 through September 2007 disclosed that in two instances, Form I-9 was not completed within the required three business days. The completion dates ranged from 20 to 23 business days. In addition, the campus could not provide new hire appointment letters for the same two employees. Also, administration of employee separations needed improvement. A review of 17 employee separations between January 1, 2006, and September 30, 2007, disclosed that three employees

who resigned were not paid within 72 hours (3 days) after resignation and one of the three employees, in addition to six other employees, did not have a separation clearance form in file. Also, two employees were not paid on the same day after being discharged and lastly, the campus had not documented formal separation procedures.

FIXED ASSETS [25]

Administration of fixed assets did not ensure that property was properly accounted for, identified, and recorded. This is a repeat finding from the prior FISMA audit. Four of 19 items sampled from the March 4, 2008, fixed assets listing had not been tagged or entered by tag number into the property sub ledger. Three capital assets were not recorded at the correct dollar amount because sales tax, freight, and/or other costs were not taken into account. One additional item should have been capitalized, but was not because it was not recorded at the correct dollar amount. One of the 19 items could not be located during our physical verification. Four of the 19 items were recorded in the PeopleSoft invoice listing from purchasing but were not recorded on the property sub ledger. In addition, equipment custody receipts were not always obtained or properly completed for off-campus use of university laptops. This is a repeat finding from the prior FISMA audit. A review of 20 laptops recorded on the September 2007 inventory disclosed that the campus could not locate 14 laptops or their equipment custody receipts. For the remaining six sample items, four of the equipment custody receipts were not properly completed. Also, property reconciliations required improvement. During a review of the property reconciliations for October, November, and December 2007, we noted that both the preparer and the reviewer did not date any of these documents. Lastly, property disposal procedures were not always enforced to ensure the timely and proper completion of property survey reports. A review of 60 property survey reports completed between January 2006 and March 2008 disclosed that only five were appropriately signed and dated by at least two members of the property survey board, none of the items that was junked or identified as e-waste had signed certificates of disposition, and none of the reports for items that were sold were reviewed by the Department of General Services. A review of 2,800 missing item reports between January 2006 and March 2008 disclosed that there was no property survey report completed for these items and none of the missing items reports were reviewed by the purchasing department or campus police. Only 1,500 of the 2,800 missing item reports had been recorded in the property sub ledger.

FISCAL INFORMATION TECHNOLOGY [32]

The security planning document used by the campus was not sufficient to identify and prioritize all campus security needs, and did not contain sufficient information to ensure that projects would be addressed in a timely manner. Network security technologies were not configured to limit unwanted network traffic from certain critical servers. Password controls for the human resources and finance systems were not set to effectively restrict access. The campus disaster recovery plan had not been updated since 2006 even though several changes had occurred in the environment and recovery strategy. This is a repeat finding from the prior FISMA audit. Access roles and privileges to the PeopleSoft Financials system were not effectively assigned to prevent unauthorized access and data modification. This is a repeat finding from the prior two FISMA audits.

INVESTMENT ALLOCATION [36]

Investment allocation schedules were neither timely nor signed and dated by the preparer or the reviewer. A review of the most recently completed investment allocation plan disclosed that rather than quarterly, interest earnings were processed to campus trust funds during the periods of January 2007 to December 2007 and July 2007 to December 2007 for the Wachovia and local agency investment fund and student-managed investment fund accounts, respectively. Also, the interest allocation plan included several calculation errors and was not signed or dated by the preparer or reviewer.

INTRODUCTION

STATEMENT OF INTERNAL CONTROLS

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. The ultimate responsibility for good internal control rests with management.

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, personnel of a quality commensurate with responsibilities, and an effective system of internal review.

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.

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.

Experience indicates that the existence of certain danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individual units or activities, and generally include any of the following danger signals:

- ▶ Policy and procedural or operational manuals are either not currently maintained or are non-existent.
- ▶ Lines of organizational authority and responsibility are not clearly articulated or are non-existent.
- ▶ Financial and operational reporting is not timely and is not used as an effective management tool.

- ▶ Line supervisors ignore or do not adequately monitor control compliance.
- ▶ No procedures are established to assure that controls in all areas of operation are evaluated on a reasonable and timely basis.
- ▶ Internal control weaknesses detected are not acted upon in a timely fashion.
- ▶ Controls and/or control evaluations bear little relationship to organizational exposure to risk of loss or resources.

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.

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 2006/07 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 2006 to September 2007. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ 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.

INTRODUCTION

We have not performed any auditing procedures beyond April 11, 2008. 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

FEE RECONCILIATIONS

Application and state university fee reconciliations were neither timely nor complete. This is a repeat finding from the prior two Financial Integrity and State Manager's Accountability Act (FISMA) audits.

Our review of reconciliations for 2007 disclosed that the application fee reconciliations for fiscal year 2006/07 were not timely prepared or complete. The reconciliations were signed but not dated, and were prepared during the current FISMA audit. The state university fee reconciliations for fiscal year 2006/07 were also prepared three days prior to the start of the current FISMA audit.

State University Administrative Manual (SUAM) §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year term and maintained on file by each campus. The reconciliations should be completed one month after the end of the academic term being reconciled.

SUAM §3825.02 states that a reconciliation of state university fees to census date report relative to the number of students accounted on the census date shall be prepared for each academic term.

State Administrative Manual (SAM) §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and date reviewed.

The university controller stated that due to the Revenue Management Program (RMP) conversion and staffing changes, the requirements were not properly communicated to staff.

Failure to prepare timely and complete fee reconciliations increases the risk that errors and irregularities will not be detected.

Recommendation 1

We recommend that the campus prepare application and state university fee reconciliations in a timely and complete manner that includes, but is not limited to, evidence of the preparer's name, reviewer's name, and date reviewed.

Campus Response

We concur. The campus will prepare application and state university fee reconciliations in a timely and complete manner that includes evidence of the preparer's name, reviewer's name, and date reviewed. We anticipate compliance by September 30, 2008.

UNCLEARED COLLECTIONS

The campus could not provide a reconciliation of uncleared collections and there was no evidence that items posted to the account were being actively pursued for resolution. This is a repeat finding from the prior two FISMA audits.

SAM §7800 states that the following sections describe generally the more commonly maintained ledgers, files, and registers that are subsidiary to general ledger accounts. The form and content of these records may vary among agencies except as specifically described in other chapters. These records will be reconciled to the general ledger monthly and include an uncleared collection file.

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

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

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

The associate vice president of business and financial services stated that tasks were not completed timely due to the absence of a university controller and general accounting manager.

Inadequate control over uncleared collections limits the campus' ability to detect errors and irregularities and may delay proper revenue recognition.

Recommendation 2

We recommend that the campus prepare formalized reconciliations of uncleared collections on a monthly basis that are signed and dated by the preparer and a reviewer.

Campus Response

We concur. The campus will prepare formalized reconciliations of uncleared collections on a monthly basis that are signed and dated by the preparer and reviewer. We anticipate compliance by November 30, 2008.

ACCOUNTS RECEIVABLE

BILLINGS FOR SERVICES

Billings for services rendered were not always timely invoiced. This is a repeat finding from the prior two FISMA audits.

Our review of 18 invoices issued between January 2006 and September 2007 disclosed that ten invoices were prepared from 41 to 189 days after the services were provided.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

The student financial services officer stated that the billings were not processed in a timely manner due to a delay in getting the billing requests and supporting documentation from the campus departments.

Failure to timely bill receivables negatively impacts cash flow and reduces the likelihood that all monies owed will be collected.

Recommendation 3

We recommend that the campus establish procedures to ensure that billings for services rendered are timely received from service departments and timely invoiced to users.

Campus Response

We concur. The campus will establish procedures to ensure that billings for services rendered are received timely from service departments and timely invoiced to users. We anticipate compliance by September 30, 2008.

COLLECTIONS

Collection activity on past-due third-party and student receivables was not always timely or documented. This is a repeat finding from the prior FISMA audit.

We reviewed 15 each of outstanding third-party receivables as of February 6, 2008, and student receivables as of January 31, 2008, and noted that:

- ▶ In 15, 13, and 6 instances, the campus was unable to provide documented first, second, and third collection letters for outstanding student receivables. Additionally, in 6, 10, and 12 respective instances, collection letters were not located for outstanding third-party receivables.

- ▶ Collection letters consisted of resending invoices that were stamped with a past-due notice. We also noted that third collection letters were sent via certified mail; however, the campus could not provide copies of the letters or the certified mail receipts.
- ▶ Due to a dispute in charges, collection activity was delayed for two third-party receivables; however, the campus could not provide documentation to evidence that resolution was being pursued. In addition, the campus did not have a policy that addressed collection disputes.
- ▶ In one instance, payment for a \$14,000 third-party invoice had been paid; however, it was not correctly recorded. The aged accounts receivable report reflected that the receivable was 586 days past-due; however, because no collection activity was performed, the campus was not aware of this error until audit inquiry.

SUAM §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, utilization of the offset claim procedures.

SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables.

The university controller stated his belief that tasks were not completed timely due to the absence of a university controller and general accounting manager.

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

Recommendation 4

We recommend that the campus:

- a. Establish and implement procedures to use a series of three 30-day collection letters for past-due third-party and student receivables.
- b. Ensure campus procedures also include documentation and filing requirements for collection letters that are sent via certified mail and for disputed invoices.
- c. Develop a policy that addresses collection disputes.
- d. Strengthen procedures for recording the payment of third-party invoices.

Campus Response

We concur. The campus will:

- a. Establish and implement procedures for using 30-60-90-day collection letters for past-due third-party and student receivables. We anticipate compliance by October 31, 2008.
- b. Ensure campus procedures include documentation and filing requirements for collection letters that are sent via certified mail and for disputed invoices. We anticipate compliance by October 31, 2008.
- c. Develop a policy that addresses collection disputes. We anticipate compliance by October 31, 2008.
- d. Strengthen procedures for recording the payment of third-party invoices. We anticipate compliance by October 31, 2008.

WRITE-OFFS

Write-off of long-outstanding accounts receivable needed improvement. This is a repeat finding from the prior FISMA audit.

We found that:

- ▶ The campus had locally written-off six account balances as of March 10, 2008. The six accounts were written-off without the applicable forms documenting collection efforts as required by campus procedures.
- ▶ Two of the six write-offs were over \$1,000 and there was no documentation showing that the campus obtained relief from accountability from the State Controller's Office (SCO).

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, specific requirements for filing applications for discharge from accountability with the SCO.

Executive Order (EO) 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts as outlined in SAM §8776.6, which includes collection procedures that assure prompt follow-up on receivables. Authority is also delegated to the campus for local adjustments of up to \$1,000 that are determined to be uncollectible or where the amount does not justify the collection costs.

The California State University, East Bay (CSUEB), *Accounts Receivable Write-Off Procedures*, state, in part, that the accounts receivable staff will compile the collection effort documentation and prepare either a write-off form or relief of accountability form as applicable.

The associate vice president of business and financial services stated that the conversion to RMP and staffing changes led staff to misunderstand all of the documentation requirements.

Failure to write-off long-outstanding accounts receivables increases the risk of misstatement of financial position.

Recommendation 5

We recommend that the campus:

- a. Contact the chancellor's office or the SCO with requests to write-off uncollectible accounts greater than \$1,000 that are related to California State University (CSU) fund categories or operations within the CSU trust funds or state appropriated funds, respectively.
- b. Prepare applicable write-off forms that detail collection efforts performed.
- c. Revise campus write-off policy to align with current practice.

Campus Response

We concur. The campus will:

- a. Contact the chancellor's office or the SCO for guidance on write-off of uncollectible accounts greater than \$1,000 that are related to CSU fund categories or operations within the CSU trust funds or state appropriated funds, respectively. We anticipate compliance by November 30, 2008.
- b. Prepare applicable write-off forms that detail collection efforts performed. We anticipate compliance by November 30, 2008.
- c. Revise campus write-off policy to align with current practice. We anticipate compliance by November 30, 2008.

COST ALLOCATION PLAN

The campus could not provide evidence that a cost allocation plan had been prepared since the prior FISMA audit. This is a repeat finding from the prior FISMA audit and the Auxiliary Organizations audit performed in October 2005.

EO 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus chief financial officer or designee shall annually approve and implement the cost allocation plan.

The associate vice president of business and financial services stated that pre-existing memorandum of understanding with the foundation and auxiliaries served as an adequate substitute while a comprehensive cost allocation plan was being completed.

The absence of an approved cost allocation plan increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

Recommendation 6

We recommend that the campus prepare a cost allocation plan as required by policy.

Campus Response

We concur. The university has developed its cost allocation model for the 2007/08 fiscal year. It will be updated annually. We anticipate compliance by September 30, 2008.

PURCHASING

PURCHASE ORDER AUTHORIZATION

Purchase orders were not always signed by personnel with appropriate signing authority.

Our review of 28 purchases from March 2006 to September 2007 disclosed two purchase orders, in the amount of \$56,668 and \$71,174, were signed by buyers whose purchase authority limits were \$50,000.

EO 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, delegates purchasing authority to the campus president or designee to acquire personal property and services.

CSUEB *Memorandum*, dated September 25, 2007, delegates purchasing authority, including dollar thresholds, to certain campus personnel.

The director of procurement and support services stated that this was an oversight since the original orders were within the signer's threshold and were subsequently modified to a higher amount.

Failure to ensure that purchase orders are signed by authorized personnel increases the risk of unauthorized purchases.

Recommendation 7

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

Campus Response

We concur. The campus has strengthened its procedures to ensure that purchase orders are properly approved prior to ordering goods and services. A reminder correspondence was sent to the buyers. We are now compliant.

PROCUREMENT CARDS

Campus policies and procedures for procurement cards needed strengthening.

Specifically, during our review of 12 procurement card statements for 12 cardholders dated between September and December 2007, we noted that the campus procurement credit card purchasing handbook was outdated as follows:

- ▶ The handbook identified JP Morgan Chase rather than GE Capital as the procurement card vendor.
- ▶ Although the handbook stated that business travel expenses were restricted and only authorized by the purchasing manager, we noted that current practice considered only airfare as allowable business travel expenses.
- ▶ Although the handbook stated that the maximum single purchase limit for procurement card users was \$2,500, we noted that 7 of the 12 cardholders had limits higher than this amount.

We also found that campus procurement card policies were not always adequately enforced. Specifically,

- ▶ In two instances, printing services were purchased without prior authorization.
- ▶ Itemized receipts were not submitted for five expenses totaling \$423.
- ▶ In one instance, the cardholder purchased fax machine maintenance services, which were prohibited by campus policy.
- ▶ One cardholder's reconciliation was not dated by the cardholder or approving official.

EO 760, *Procurement Cards*, dated October 16, 2000, states the chief financial officer of each campus is responsible for developing and maintaining policies and procedures governing the use of the procurement card. Campus practices should ensure strong internal controls that mitigate procurement card abuses, comply with Trustee policy, ensure observance of good business practices, and provide appropriate checks and balances.

The *Procurement Credit Card Purchasing Handbook*, dated December 16, 2004, states that printing services require advanced written permission and that the use of the procurement card is strictly prohibited for maintenance agreements. It also states the cardholder shall require the vendor to itemize the receipt, invoice, or proof of purchase. If the receipt or invoice is not itemized, the cardholder must write in the items and have the salesperson sign it.

The director of procurement and support services stated that while the manual was being revised, the purchasing card administrator individually trained employees and she stated her belief that sufficient information was conveyed during training.

Insufficient procurement card controls increase the risk of loss from inappropriate acts.

Recommendation 8

We recommend that the campus update procurement procedures to reflect the current practices and publish these procedures for procurement cardholder use.

Campus Response

We concur. The campus will complete updates to the procurement card procedures to reflect the current practices and publish these procedures for procurement cardholder use. We anticipate compliance by September 30, 2008.

OPERATING FUND

CHANGE FUND ADMINISTRATION

Change funds were not adequately administered.

During our review of 24 change funds maintained by the campus, we noted that 16 funds were not subject to independent fund counts as frequently as required from January 2006 to September 2007. We also noted that in two instances, fund count sheets were not signed by the fund 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:

Size of Fund	Frequency of Count
\$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 associate vice president of business and financial services stated that the lack of count sheets was due to conflicting responsibilities as well as minimal resources in the area.

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

Recommendation 9

We recommend that the campus strengthen controls to ensure that change funds are counted at prescribed frequencies.

Campus Response

We concur. The campus has strengthened its controls to ensure that change funds are counted at prescribed frequencies. We are now in compliance.

OPERATING FUND RECONCILIATIONS

Operating fund reconciliations were not timely prepared and complete.

During our review of the operating fund reconciliations for October, November, and December 2007, we noted that all three of the reconciliations were not signed and dated by the preparer until March 18, 2008, which was 78, 109, and 139 days late, respectively. In addition, all three reconciliations were not dated by the reviewer.

SAM §7800 requires that subsidiary records be reconciled to the general ledger monthly.

SAM §7901 requires monthly preparation of all reconciliations within 30 days of the preceding month.

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

The university controller stated his belief that tasks were not completed timely due to absence of a university controller.

Untimely and incomplete reconciliations limit the campus' ability to detect errors and irregularities and compromises accountability.

Recommendation 10

We recommend that the campus establish procedures to ensure that operating fund reconciliations are timely prepared and appropriately signed, reviewed, and dated.

Campus Response

We concur. The campus has established procedures to ensure that operating fund reconciliations are timely prepared and appropriately signed, reviewed, and dated. Reconciliations are current. We are now in compliance.

CASH DISBURSEMENTS

VENDOR MASTER FILE

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments.

Three users had the ability to process payments as well as add/update the vendor master file within PeopleSoft.

SAM §8080.1 states that each state agency should establish and maintain an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, “no one person shall perform more than one of the following 11 types of duties, including maintaining records file and operating mechanized equipment, initiating disbursement documents, approving disbursement documents, and inputting disbursement information.”

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

The director of procurement and support services stated that this was an oversight due to having a very small staff.

Failure to maintain adequate control over the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 11

We recommend that the campus restrict vendor add/update permissions to only those individuals with a defined need for such access, and specifically restrict vendor add/update permissions for persons responsible for processing payments.

Campus Response

We concur. The campus will further restrict vendor add/update permission to only those individuals with a defined need for such access and have restricted vendor add/update permissions for persons responsible for processing payments. We anticipated compliance by August 30, 2008.

BANK RECONCILIATIONS

Bank reconciliations were not always timely prepared and complete. This is a repeat finding from the prior two FISMA audits.

During our review of the bank reconciliations for October, November, and December 2007, we noted that the reconciliations for October and November 2007 were not prepared until January 15, 2008, which were 45 and 15 days late, respectively. In addition, all three reconciliations were not dated by the reviewer.

SAM §7901 requires monthly preparation of all reconciliations within 30 days of the preceding month.

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

SAM §7923 requires departments reconcile their end-of-the-month bank and centralized State Treasury system account balances monthly.

SAM §8060 states that all bank and centralized State Treasury system accounts will be reconciled promptly at the end of each month.

The university controller stated that this was an oversight caused by the absence of a controller during the time period that was reviewed.

Untimely and incomplete reconciliations limit the campus' ability to detect errors and irregularities and compromises accountability.

Recommendation 12

We recommend that the campus strengthen procedures to ensure that bank reconciliations are timely prepared and appropriately signed, reviewed, and dated.

Campus Response

We concur. The campus has strengthened its procedures for bank reconciliations and all reconciliations are timely prepared and appropriately signed, reviewed, and dated. We are now in compliance.

LONG-OUTSTANDING CHECKS

Long-outstanding checks were not processed in a timely manner. This is a repeat finding from the prior FISMA audit.

We reviewed the most recent list of outstanding checks for December 2007 and noted 216 checks totaling \$79,169 that were dated December 2006 or earlier.

SAM §8042 states that checks have a one-year period of negotiability, unless specific provisions of law require cancellation in a different period of time. Further, agencies will send a stop payment request form to the State Treasurer's Office for all uncashed checks timed to arrive at least one week prior to the end of the one-year period of negotiability.

The associate vice president of business and financial services stated her belief that the employees responsible for that function had been backlogged with other work that was deemed a higher priority to the campus.

Failure to process long-outstanding checks increases the risk of misappropriation and requires additional effort to review outstanding checks during the reconciliation process.

Recommendation 13

We recommend that the campus:

- a. Promptly process the noted long-outstanding checks.
- b. Strengthen procedures to ensure that future long-outstanding checks are processed in a timely manner.

Campus Response

We concur. The campus has:

- a. Processed all noted long-outstanding checks. We are now in compliance.
- b. Strengthened procedures to ensure that future long-outstanding checks are processed in a timely manner. We are now in compliance.

PAYROLL

I-9 VERIFICATION

Federal Form I-9, Employment Eligibility Verification, was not always timely completed.

Our review of 18 new hires from January 2006 through September 2007 disclosed that in two instances, Form I-9 was not completed within the required three business days. The completion dates ranged from 20 to 23 business days.

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 associate vice president of business and financial services stated that the payroll personnel transaction date did not accurately reflect the first date actually worked for many faculty positions.

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

Recommendation 14

We recommend that the campus:

- a. Strengthen procedures to ensure timely completion of Form I-9.
- b. Retain new hire appointment letters as documentation of new hire start dates.

Campus Response

We concur. The campus will:

- a. Strengthen its procedures to ensure timely completion of Form I-9. We are now in compliance.
- b. Retain new hire appointment letters as documentation of new hire start dates. We anticipate compliance by September 30, 2008.

EMPLOYEE SEPARATIONS

Administration of employee separations needed improvement.

Our review of 17 employee separations between January 1, 2006, and September 30, 2007, disclosed that:

- ▶ Three employees who resigned were not paid within 72 hours (3 days) after resignation. These employees were paid between 11 and 21 days after resignation. One of the three employees, in addition to six other employees, did not have a separation clearance form in file.
- ▶ Two employees were not paid on the same day after being discharged. These employees were paid between 6 and 18 days after being discharged.
- ▶ The campus had not documented formal separation procedures.

SAM §8580.4 describes the need for adequate separation procedures, including preparation of a clearance form that includes clearance of revolving fund advances (travel and salary), return of keys, equipment, credit cards, etc.

CSU directive HR 2003-15, dated August 6, 2003, states, in part, that an employee who is discharged must be paid for wages earned and benefits accrued immediately. In addition, it states that an employee who resigns must be paid wages and benefits earned no later than 72 hours after resignation; however, if the employee provides at least 72 hours notice of resignation, they should be paid at the time of separation. The 72 hours is a continuous period that includes weekends and holidays.

The associate vice president of business and financial services stated that this was caused by the inappropriate effort made by departments trying to collect state property from employees separating from the university.

Insufficient administration of employee separations increases the risk of late wage payments, loss of state funds, and inappropriate use of state resources.

Recommendation 15

We recommend that the campus develop and document formal procedures for employee separations that include, but are not limited to, timely payment of wages and completion of clearance documentation.

Campus Response

We concur. The campus will develop and document formal procedures for employee separations that include, but are not limited to, timely payment of wages and completion of clearance documentation. We anticipate completion by December 31, 2008.

FIXED ASSETS

PROPERTY ACCOUNTING

Administration of fixed assets did not ensure that property was properly accounted for, identified, and recorded. This is a repeat finding from the prior FISMA audit.

We reviewed 19 items sampled from the March 4, 2008, fixed assets listing and found that:

- ▶ Four of 19 property items reviewed had not been tagged or entered by tag number into the property sub ledger.
- ▶ Three capitalized property items had not been accurately recorded into the property sub ledger. The additional costs totaling \$1,325 for sales tax, freight, and other items were excluded from the costs entered into the property sub ledger.
- ▶ One item valued at \$5,367 was not capitalized. The item was valued and \$3,740 and recorded as non-capitalized equipment in the property sub ledger because sales tax, freight, and other items were excluded from the costs.
- ▶ One of 19 items could not be located during our physical verification.
- ▶ Four of the 19 items recorded in the PeopleSoft invoice listing from purchasing were not recorded on the property sub ledger. These line items represented clusters or groups of assets that were not recorded as individual items in the property sub ledger. These four line items represented 60 items, including two camcorders, nine exercise equipment, and 49 computers.

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

SAM §8650 indicates that the property records for each property acquisition include date acquired, property description, property identification number, cost or other basis of valuation, owner fund, and rate of depreciation, if applicable. Property records shall include both capitalized and non-capitalized property.

SAM §8651 indicates that all state property will be tagged after acquisition.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

The associate vice president of business and financial services stated that the problems identified with fixed assets were due to budget cuts and the inability to fill the property clerk's position for the past few years and that the new property clerk was addressing these issues as quickly as possible.

Insufficient control over property increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

Recommendation 16

We recommend that the campus:

- a. Strengthen procedures to ensure that assets are promptly tagged and timely and accurately recorded into the property records.
- b. Strengthen procedures to ensure that all costs, including freight and taxes, are included in the cost of capitalized assets.
- c. Strengthen controls over assets by increasing departmental accountability for assets under their control.

Campus Response

We concur. The campus will:

- a. Strengthen procedures to ensure that assets are promptly tagged and timely and accurately recorded into the property records. We anticipate compliance by November 30, 2008.
- b. Strengthen procedures to ensure that all costs, including freight and taxes, are included in the cost of capitalized assets. We anticipate compliance by November 30, 2008.
- c. Strengthen controls over assets by increasing departmental accountability for assets under their control. We anticipate compliance by November 30, 2008.

EQUIPMENT CUSTODY RECEIPTS

Equipment custody receipts were not always obtained or properly completed for off-campus use of university laptops. This is a repeat finding from the prior FISMA audit.

Our review of 20 laptops recorded on the September 2007 inventory disclosed that:

- ▶ In four instances, equipment custody receipts were not properly completed. Two of the receipts were issued and authorized by the same person and one of these forms did not indicate the property return date. We also noted that in one instance, the receipt was not signed.
- ▶ The campus could not locate 14 laptops or their equipment custody receipts.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

CSUEB *Property Manual*, Section XXII, states that the removal of any item of equipment from its normally assigned location on campus must be covered by a signed custody receipt or equipment transfer form. In the case of equipment on loan to employees or non-employees, the properly authorized custody receipt is required to protect the school from possible liability in the event that the item is lost, destroyed, stolen, or damaged. Property can only be removed from campus for official purposes of the university.

The associate vice president of business and financial services stated that the problems identified with fixed assets were due to budget cuts and the inability to fill the property clerk position for the past few years and that the new property clerk was addressing these issues as quickly as possible.

Failure to utilize equipment custody receipts increases the risk of unauthorized use and loss of state property.

Recommendation 17

We recommend that the campus:

- a. Enforce the use of equipment custody receipts.
- b. Perform an immediate investigation to locate the missing laptops and once located, obtain equipment custody receipts from employees that are loaned the equipment.

Campus Response

We concur. The campus has:

- a. Begun to enforce the use of equipment custody receipts. We are now in compliance.
- b. Investigated the missing laptops and has found that they are no longer in service but have been e-wasted out in lots. In the future, we will obtain equipment custody receipts from employees that are loaned the equipment. We anticipate compliance by November 30, 2008.

PROPERTY RECONCILIATIONS

Property reconciliations required improvement.

During our review of the property reconciliations for October, November, and December 2007, we noted that both the preparer and the reviewer did not date any of these documents.

SAM §7901 requires monthly preparation of all reconciliations within 30 days of the preceding month.

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

The associate vice president of business and financial services stated that the problems identified with fixed assets were due to budget cuts and the inability to fill the property clerk's position for the past few years and that the new property clerk was addressing these issues as quickly as possible.

Reconciliations not dated increase the probability of untimely reconciliations and compromises accountability.

Recommendation 18

We recommend that the campus establish procedures to ensure that future property reconciliations are timely prepared and appropriately signed, reviewed, and dated.

Campus Response

We concur. The campus will establish procedures to ensure that future property reconciliations are timely prepared and appropriately signed, reviewed, and dated. We anticipate compliance by November 30, 2008.

PROPERTY DISPOSALS

Property disposal procedures were not always enforced to ensure the timely and proper completion of property survey reports.

Our review of 60 property survey reports and 2,800 missing item reports completed between January 2006 and March 2008 disclosed that:

- ▶ None of the property survey reports was properly completed. These reports included 726 items with a total acquisition cost of approximately \$1,293,000. Specifically,
 - Only five reports were signed and dated by at least two members of the property survey board.
 - None of the items that was junked or identified as e-waste had signed certificates of disposition.
 - None of the reports for items that were sold on eBay was reviewed by the Department of General Services. These items included 17 vehicles with an approximate acquisition cost of \$360,000.
 - There was no follow-up with the campus police or other parties for approximately 700 items that were dispositioned as missing. These items included, but were not limited to, computers and laptops worth approximately \$450,000 and \$90,000, respectively, and a \$50,000 sculpture.
- ▶ None of the missing item reports was properly completed. Specifically,
 - None of the reports was supported by a property survey report or reviewed by the purchasing department or campus police.
 - No equipment transfer forms were prepared for 160 reports that listed transfers to surplus.
 - 1,500 reports were not entered into the property sub ledger.

SAM §3520.2 indicates that each agency will have a duly appointed property survey board. It will be the responsibility of the board to determine that the best interest of the state is served in disposing of state property. At least two members of the property survey board will approve all property survey reports and any transfers of location of equipment.

SAM §3520.3 states that when an agency proposes to dispose of state-owned, non-expendable surplus property by sale, by trade-in, or by discarding the property, the agency prepares a property survey report. When an agency proposes to transfer such property to another agency or to a unit within the agency, the agency prepares a transfer of location of equipment form. The agency may

use an agency form in lieu of the transfer of location form for intra-agency transfers between organizational units accounted for in the same general ledger account.

SAM §3520.9 states that when an agency disposes of state-owned surplus personal property by means other than the sale of the property (i.e., salvaged, scrapped, discarded, or hauled to landfill) the agency's responsible employee and unit supervisor shall certify in writing that the disposition has been accomplished. The certification may be made on the property survey report or attached and filed with the form.

SAM §4111 states that disposal of mobile equipment shall be by public auction or sealed bid, and the method of disposal is subject to approval by the Department of General Services, Office of Fleet and Asset Management.

SAM §8640 states that the Director of General Services has authority to approve the sale, exchange, or transfer between departments of personal property owned by the state if the sale, exchange, or transfer is in the best interest of the state. Before disposing of property, e.g. sale, transfer, trade-in, etc., departments must receive approval from Property Reutilization, Department of General Services.

SAM §8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report form, and adjust their property accounting records. This report will contain a description of the events, precautions to be taken to prevent repeat situations, and a statement that the California Highway Patrol (CHP) has been notified. In the case of information technology security incidents and computer related crimes, CHP must be notified and a Security Incident Report must be located and submitted to the Department of Finance.

SAM §20050 indicates, in part, 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.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

CSUEB *Property Manual*, Section XXXIII, states in order to remove property items from a department's inventory records, a request for property survey report must be prepared and submitted for approval. The property survey report must be approved by at least two members of the property survey board. In addition, if the property has been lost or stolen, the university police department and departmental property custodian must be notified and the property office will remove the property from departmental records.

The associate vice president of business and financial services stated that the problems identified with fixed assets were due to budget cuts and the inability to fill the property clerk's position for the past few years and that the new property clerk was addressing these issues as quickly as possible.

Inadequate control over university property, including property that contains confidential information, reduces accountability, increases the risk of misstatement, theft, loss, and inappropriate use of state resources, and increases the campus exposure to information security breaches.

Recommendation 19

We recommend that the campus:

- a. Complete property survey reports for all items that are removed from campus inventory records.
- b. Prepare certificates of destruction for items that are junked or identified as e-waste.
- c. Obtain the Department of General Services review for items that are sold.
- d. Perform follow-up with the campus police and other departments for items that are dispositioned as missing.
- e. Complete missing item reports and notify appropriate campus departments, including campus police, for items that are lost or stolen. Also, complete and enter a property survey report to the property sub ledger for these items.
- f. Complete equipment transfer forms for items that are transferred to surplus.
- g. Implement monitoring controls to ensure the completion of the above mentioned procedures and compliance with applicable policies.

Campus Response

We concur. The campus has/will:

- a. Completed property survey reports for all items that have been removed from campus inventory records. We are now in compliance.
- b. Prepare certificates of destruction for items that are junked or identified as e-waste. We are now receiving these certificates from our e-waste vendors. We anticipate compliance by November 30, 2008.
- c. Contacted the Department of General Services for vehicles that are sold. It has been discovered that Department of General Services review is for state vehicles only. We are now in compliance.
- d. Perform follow-up with the campus police and other departments for items that are disposition as missing. We anticipate compliance by September 30, 2008.

- e. Completed review of missing items and have determined that the items were inaccurately accounted for in the past. We will enter a survey report for items that it is necessary. We anticipate compliance by October 30, 2008.
- f. Completed equipment transfer forms for items that are transferred to surplus. We are now in compliance.
- g. Implement monitoring controls that will ensure the completion of the above-mentioned procedures and compliance with applicable policies. We are recruiting for a second property position that will help to assist in proper property controls. We anticipate compliance by September 30, 2008.

FISCAL INFORMATION TECHNOLOGY

INFORMATION SECURITY OVERSIGHT

The security planning document used by the campus was not sufficient to identify and prioritize all campus security needs, and did not contain sufficient information to ensure that projects would be addressed in a timely manner.

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 chief information officer stated that the status of existing information security projects was reported to executive management.

Security practices that do not ensure campus-wide policy and compliance increase the risk of unauthorized exceptions and could compromise compliance with statutory information security requirements, while lack of a comprehensive system of information security management increases campus exposure to security breaches and the risk of inappropriate access to data.

Recommendation 20

We recommend that the campus:

- a. Develop a comprehensive plan to identify and prioritize campus information security needs.
- b. Develop time frames for completing existing information security projects.

Campus Response

We concur.

- a. We will create a plan for a comprehensive risk assessment by December 31, 2008.
- b. Findings from the Unisys assessment created the framework for our campus information security plan and identified security of our desktop computers and servers as our greatest risks. In 2007, these assessments lead to: 1) higher prioritization of our desktop infrastructure and server consolidation initiatives; 2) the deployment of the campus-wide patch management tools; and 3) the consolidation of several dozen servers – significantly reducing our security exposure. Target implementation date: December 31, 2008

NETWORK SECURITY

Network security technologies were not configured to limit unwanted network traffic from certain critical servers.

SAM §4842.2 states that appropriate risk management procedures should be implemented to provide control of access to information assets. Effective network security practices enforcement of authentication standards and proper restriction on all network access points.

The network security analyst stated that many network security features had been implemented and that the servers themselves were sufficiently secured but that it would be possible to further protect the system by preventing unwanted network traffic from reaching critical servers.

Failure to restrict unwanted network traffic from certain critical servers increases campus exposure to unauthorized activities by unknown individuals, which could lead to unauthorized access.

Recommendation 21

We recommend that the campus configure network security technologies to limit unwanted network traffic from reaching critical servers.

Campus Response

We concur. The campus has configured its network security technologies to limit unwanted network traffic from reaching critical servers. We are now in compliance.

PASSWORD CONTROLS

Password controls for the human resources and finance systems were not set to effectively restrict access.

SAM §4841 requires state agencies to provide for the proper use and protection of its information assets by establishing appropriate policies and procedures for preserving the integrity and security of automated files and databases.

The director of application systems stated that primary access to these systems was through a centralized authentication system which does enforce password controls and that direct access to these systems was restricted to only a few individuals.

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

Recommendation 22

We recommend that the campus activate the password controls in the human resources and finance systems to effectively restrict access in accordance with campus password security guidelines.

Campus Response

We concur. The campus has activated the password controls in the human resources and finance systems to effectively restrict access in accordance with campus password security guidelines. We are now in compliance.

DISASTER RECOVERY PLAN

The campus disaster recovery plan had not been updated since 2006 even though several changes had occurred in the environment and recovery strategy. This is a repeat finding from the prior FISMA audit.

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 chief information officer stated that the campus had recently completed making significant changes to its information technology environment and to its business operations, and that an update of the disaster plan was intentionally delayed until the changes to the environment were complete.

Without a current information technology disaster recovery plan that addresses all significant components required for recovery, the campus may not be able to restore computer operations within a reasonable time frame.

Recommendation 23

We recommend that the campus update its disaster recovery plan to reflect the existing environment.

Campus Response

We concur. The campus has updated its disaster recovery plan to reflect the existing environment. We are now in compliance.

PEOPLESOFT ACCESS PRIVILEGES

Access roles and privileges to the PeopleSoft Financials system were not effectively assigned to prevent unauthorized access and data modification. This is a repeat finding from the prior two FISMA audits.

We found that:

- ▶ Some individuals had been given privileges to the purchasing, general ledger, and accounts payable modules, which were not compatible with proper segregation of duties.
- ▶ Some individuals had been granted privileges that allowed access to all screens.
- ▶ Some individuals had been granted security privileges for which they were not responsible.

SAM §8080.1 states that each state agency to establish and maintain an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, “no one person shall perform more than one of 11 types of duties, including maintaining records file and operating mechanized equipment, initiating disbursement documents, approving disbursement documents, and inputting disbursement information.”

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

The director of server and network operations stated that the system privileges had not recently been reevaluated.

Failure to properly limit access to only those who need to perform job duties increases the risk of fraudulent or unauthorized activities.

Recommendation 24

We recommend that the campus review access privileges and take appropriate action to segregate duties and restrict update responsibilities. Specifically, the campus should:

- a. Remove individual privileges to multiple application modules incompatible with their assigned duties.
- b. Remove access to all screens.
- c. Remove security access from those individuals that do not require such access to perform the job duties.

Campus Response

We concur. The campus has:

- a. Removed individual privileges to multiple application modules incompatible with their assigned duties. We are now in compliance.
- b. Removed access to all screens. We are now in compliance.
- c. Removed security access from those individuals that do not require such access to perform the job duties. We are now in compliance.

INVESTMENT ALLOCATION

Investment allocation schedules were neither timely nor signed and dated by the preparer or the reviewer.

Our review of the most recently completed investment allocation plan disclosed that:

- ▶ Rather than quarterly, interest earnings were processed to campus trust funds during the periods of January 2007 to December 2007 and July 2007 to December 2007 for the Wachovia and local agency investment fund and student managed investment fund accounts, respectively.
- ▶ The interest allocation plan included several calculation errors and was not signed or dated by the preparer or reviewer.

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; an

established system of practices to be followed in performance of duties and functions; and an effective system of internal review.

CSUEB *Investment Earnings Allocation Policy*, revised March 18, 2008, states that investment earnings allocation will be processed on a quarterly basis.

The university controller stated that tasks were not completed timely due to absence of a university controller.

Failure to timely process investment earnings and maintain complete allocation plans delays the ability to timely and accurately close the campus financial records and increases the risk of errors in the allocation process.

Recommendation 25

We recommend that the campus establish procedures to ensure that:

- a. Investment allocations are timely processed in compliance with campus policies.
- b. Investment allocation plans are accurate and signed and dated by the preparer and reviewer.

Campus Response

We concur. The campus has established procedures to ensure that:

- a. Investment allocations are timely processed in compliance with campus policies. We are now in compliance.
- b. Investment allocations plans are accurate and signed and dated by the preparer and reviewer. We are now in compliance.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Mohammad Qayoumi	President
Monica Abruzzo	Registration Specialist
Maria Acle	Accounting Technician
Donna Arredondo	Accountant II
Shawn Bibb	Vice President, Administration and Finance/Chief Financial Officer
Yvonne Brandenburg	Student Financial Services Manager
Carla Calix	Accounting Technician
John Charles	Chief Information Officer
Matt Collins	Director, Application Systems
Frank Correia	Director, Server and Network Operations
Thomas Dixon	Network Security Analyst
Linda Eick	Fiscal Manager
Gail Erickson	Health Record Technician
Samuel Fong	Pharmacist
Tom Froelich	Director of Advancement Services
Joyce Geipel	Clinical Assistant
Edward Gonzalves	Warehouse Worker
Virginia Grewen	Academic Services Assistant
Jonathan Hale	Property Clerk
Darrell Haydon	University Controller
Edith Herrera	Accountant II
Joanne Hill	Human Resources Manager
Celia Jimenez	Administrative Support Assistant
Charlene Keilough	Student Financial Services Supervisor
John Lane	Management Intern
Alice Lau	Accounting Technician
Laura Learned	Contracts Assistant
Aaron Ledesma	Accounting Technician
Lana Lewis	Accounts Payable Manager
Nyassa Love	Associate Vice President of Business and Financial Services
Al Newell	Procurement Card Coordinator
Josephine Ojacastro	Accounting Technician
Florence Olney	Student Financial Services Officer
Rita Peth	Director, Procurement and Support Services
Gordon Poy	Budget and Data Specialist
Julie Reynoso	Database and Customer Relationship Manager
Flora Salas	Administrative Analyst/Specialist
Susan Teixeira	Data Entry Operator
Eloise Thomas	Accounting Technician
Tony Tijero	Payroll Supervisor
Gail Turner	Data Entry Supervisor and Registration Coordinator
James Villamora	General Accounting Manager
Mike Walker	Administrative Analyst/PeopleSoft Coordinator
Cheryl Washington	Director, Business Systems
Harry Wong	Gift Processing Technician
Cecilia Zefeldt	Administrative Support Coordinator