

FISMA

**CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS**

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ABBREVIATIONS

CSU	California State University
CSUCI	California State University, Channel Islands
CTS	Centralized Treasury System
DRP	Disaster Recovery Plan
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
HR	Human Resources
IT	Information Technology
SAM	State Administrative Manual
SCO	State Controller's Office
STO	State Treasurer's Office
SUAM	State University Administrative Manual
TPS	Transportation and Parking Services

EXECUTIVE SUMMARY

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). 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 internal control audits (covering accounting and fiscal compliance practices) in accordance with the *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.

We visited the California State University, Channel Islands (CSUCI) campus from February 9, 2004, through March 8, 2004, and made a study and evaluation of the accounting and administrative control in effect as of March 8, 2004. CSUCI opened in 2002 and welcomed its first class of freshmen in fall 2003. This report represents our first review.

CSUCI 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.

Our audit disclosed conditions that, in our opinion, if not corrected would result in significant errors and irregularities. Specifically, the campus did not maintain adequate control over the following areas: cash receipts, accounts receivable, purchasing, revolving fund, cash disbursements, payroll and personnel, fixed assets, fiscal information technology, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, due to the effect of the weaknesses described above, CSUCI's accounting and administrative control in effect as of March 8, 2004, taken as a whole, were not sufficient to meet the objectives stated above. However, CSUCI accounting and administrative control were still in the process of being fully developed due to the newness of the campus.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change 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 [7]

Certain activities that impact the control environment for cash receipts needed improvement. Access to the cash processing area at the cashier's office was not sufficiently restricted; one employee was assigned to regularly transport deposits to the bank, which could compromise the individual's safety; access to the cashiering system was not removed for transportation and parking services employees who no longer required access; and parking receipts were not reconciled to the revenue recorded in the general ledger. Additionally, notification to the State Treasurer's Office concerning daily deposits for any one account in excess of \$100,000 did not occur. Application fees were not reconciled to the number of applications received, and state university fees on the subsidiary ledger at the end of a semester served as the basis to adjust the fees recorded in the general ledger. A proper reconciliation would compare the projected state university fees based on the number of students reported on the census date less waivers approved with the general ledger showing identification of specific transactions that would resolve any differences. Remittances of monies to the State Treasury did not occur with the required frequency; only five remittances totaling \$3,582,487 were processed between July 2003 and February 2004. Further, students did not constitute a majority of the voting members for the student fee advisory committee, and the campus had not established procedures to periodically request local banks to search for unauthorized bank accounts.

ACCOUNTS RECEIVABLE [12]

Billings for services rendered were not timely invoiced. A review of 25 invoices issued between December 2002 and January 2004 disclosed that ten were prepared between 3 to 33 months after the services were provided.

PURCHASING [13]

Access to the vendor master file was not adequately controlled. Eight individuals had user IDs with update access to vendor information, which included three staff members from purchasing and five from accounting. In addition, campus procurement card controls did not ensure that appropriate supporting documentation was obtained or appropriate purchases were made. For example, multiple or single purchases were made from vendors that exceeded the single and monthly purchase limits, documented prior approval was not obtained for purchases of business-related food expenses, and documentation was not required to be retained for authorization of purchase limit increases.

REVOLVING FUND [15]

Change and purchase funds were not appropriately counted and assigned. Independent counts for six of seven change and purchase funds were not performed at the prescribed frequency, a receipt of custody for the amount advanced was not on file for four of the seven change and purchase funds, and consecutive independent counts for a change fund disclosed cash shortages in September and December 2003.

CASH DISBURSEMENTS [17]

The campus bank account with the State Centralized Treasury System did not always have a positive cash balance. A review of bank reconciliations disclosed 13 negative month-end balances ranging from \$1,203,652 to \$5,198,135 between October 2002 and November 2003. In addition, bank reconciliations were not complete. A review of bank reconciliations between July 2002 and December 2003 disclosed that bank balances were not reconciled to general cash, revolving fund cash, and the agency trust fund cash account; an unsupported reconciling difference of \$134,230 was shown on the August 2003 through December 2003 reconciliations, and the reconciliations were not always signed and dated.

PAYROLL AND PERSONNEL [18]

Federal Form I-9 employment eligibility information was not always timely. A review of 15 new hires between January 2001 and August 2003 disclosed that the campus completed employment eligibility verification for six employees between 14 and 41 days following the first day of work. In addition, employee separation procedures did not ensure timely payment of wages due and complete clearance documentation. Instances were noted where the final salary payment or salary advance was not completed within 72 hours after the effective separation date and campus clearance certification was not on file for salary advances, credit cards, keys, and equipment. Further, the campus clearance form did not consider the removal of information technology access and the return of library materials.

FIXED ASSETS [20]

Campus controls did not ensure that property was properly recorded, identified, and disposed of. An inventory listing of all campus property had not been prepared. In addition, identification tags were not being attached to campus property, a physical count of all property had not been made, and a property survey board had not been established to decide whether the disposal of surplus property served the best interest of the campus.

FISCAL INFORMATION TECHNOLOGY [22]

Control over the integrity of data files was not adequate because a process was not in place to authorize and monitor the use of Oracle IDs, which allowed the modification of production PeopleSoft data. Although a disaster recovery plan had been drafted, it had neither been approved by management nor implemented. In addition, password controls for accounts on the campus network systems were not set to effectively deter unauthorized access because password syntax, history, expiration, and aging rules were not active; and procedures to monitor software licenses did not ensure compliance with licensing agreements for all computers.

INVESTMENTS [25]

Investment earnings were not distributed to trust accounts.

TRUST FUNDS [25]

Trust fund administration did not include the preparation of trust agreements and ensure that trust projects maintained positive balances and budgets were prepared. A review of trust funds disclosed that accounts were established without a supporting trust agreement; three trust projects had negative trust cash balances ranging from \$950 to \$2,772,774 and negative fund balances ranging from \$16,427 to \$2,874,624 as of June 30, 2003; and budgets were not always prepared for trust projects.

RECONCILIATIONS [26]

Reconciliations were not always prepared and complete; those that were prepared were not done so in a timely manner. A review of reconciliations in February 2004 disclosed that balances reported on subsidiary receivable aging schedules for outstanding student accounts were not being reconciled to the general ledger. In addition, reconciliations with the State Controller's balances for August through November 2003 were not completed until January 2004; and reconciliations for uncleared collections, revolving fund, and State Controller's balances were not always signed and dated.

POLICIES AND PROCEDURES [27]

Policies and procedures that impact the system of internal accounting and administrative control for the campus were incomplete or not documented. We noted that policies and procedures were not documented or were incomplete for the cash receipts, accounts receivable, shipment receiving, revolving fund, cash disbursements, fixed assets, investments, and trust fund functions.

INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems to ensure that:

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Physical computer controls are in place and functioning.
- ▶ 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 *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 2002/03 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 2003 to March 2004. 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.

INTRODUCTION

- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of revolving fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to automated accounting systems and proper documentation of the systems.
- ▶ 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 the date of our report. 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

MAIN AND SATELLITE CASHIERING

Cash control weaknesses were found at the cashier's office and transportation and parking services (TPS).

Cashier's Office

- ▶ Access to the cash processing area was not sufficiently restricted due to the location of a photocopy machine shared with other departments.
- ▶ One employee was assigned to regularly transport deposits to the bank, which could compromise the individual's safety. The assigned employee recalled being escorted to the bank by an officer from the campus public safety department on only one occasion.

TPS

- ▶ Access to the cashiering system was not removed for employees no longer requiring access in the performance of their duties.
- ▶ Parking receipts were not reconciled to the revenue recorded in the general ledger.

State Administrative Manual (SAM) §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

SAM §8032.2 indicates that an assigned employee may deliver the deposit to the bank if an armored car service either is not available or not economically justified and direct delivery of deposits does not subject the assigned employees to the hazard of robbery or compromise their safety.

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

The vice president for finance and administration stated that access to the cash processing area was under review and use of an armored car service was too costly for the campus. The manager for public safety support services stated that the department was unaware of the procedures to remove accounts from the cashiering system and had not previously considered reconciling parking revenue to the general ledger.

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

Recommendation 1

We recommend that the campus:

- a. Limit access to the cashier's office.
- b. Reevaluate the use of an armored car service to deliver bank deposits or consider the regular use of a public safety escort.
- c. Establish and implement procedures to ensure that cashiering system accounts are deleted in a timely manner.
- d. Establish and implement procedures to reconcile parking receipts to the general ledger.

Campus Response

- a. We concur. We have built a secure area for cashiers within the enrollment center. Cashiers took occupancy in early July 2004. Completed.
- b. We are reevaluating use of courier service especially now that the employee who did bank deposit trips retired in July 2004. Estimated completion date is October 31, 2004.
- c. We concur. We have added this to our separation procedure. Estimated completion date is October 31, 2004.
- d. We concur. We reconcile between parking and the general ledger on a monthly basis. Completed.

LARGE DEPOSIT NOTIFICATIONS

Notification to the State Treasurer's Office (STO) concerning daily deposits for any one account in excess of \$100,000 did not occur.

SAM §8032.5 requires that the campus notify the STO whenever deposits for any one account are in excess of \$100,000 in any given day.

The general accounting manager stated that the campus was unaware of the requirement to notify the STO of large deposits.

Without notification, the State Treasurer could erroneously claim that it was unable to properly collateralize funds.

Recommendation 2

We recommend that the campus establish and implement procedures to notify the STO whenever deposits for any one account exceed \$100,000 and document its notification.

Campus Response

We have established and implemented a procedure to notify STO whenever deposits for any one account exceed \$100,000. Completed.

FEE AUTHORIZATION

Students did not constitute a majority of the voting members for the student fee advisory committee that provides advice to the president prior to adjusting any fee and before requesting the chancellor establish a new fee.

Executive Order (EO) 740, *The California State University Student Fee Policy*, dated April 13, 2000, requires students appointed by the student body association constitute a majority of the voting members of the committee.

The vice president for finance and administration stated that the committee was working on increasing its student voting membership.

Insufficient student representation on the student fee advisory committee increases the risk that appropriate and meaningful consultation will not occur prior to increasing and establishing campus fees.

Recommendation 3

We recommend that the campus increase the number of students appointed by the campus student body association to constitute a majority of the voting members of the campus fee advisory committee.

Campus Response

We concur. We have added more students to the fee committee and will extend extra efforts to get them to participate in the deliberations. Completed.

FEE RECONCILIATIONS

Fee reconciliations were either not prepared or not prepared in a proper and timely manner.

We noted that:

- ▶ Application fees were not reconciled to the number of applications received.
- ▶ State university fees on the subsidiary ledger at the end of a semester served as the basis to adjust the fees recorded in the general ledger. However, a proper reconciliation would compare the projected fees based on the number of students reported on the census date less waivers approved

with the general ledger showing identification of specific transactions that would resolve any differences.

State University Administrative Manual (SUAM) §3825.01 requires that a reconciliation of applications for admission to fees received be prepared one month after the end of the academic term being reconciled.

SUAM §3825.02 requires that a reconciliation of state university fees to the census date report relative to the number of student's accounted for on the census date be prepared for each academic term.

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications, and that all reconciliations will be prepared monthly within 30 days of the preceding month.

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

The general accounting manager stated that the campus was unaware of the specific requirements for reconciling application and state university fees.

Failure to reconcile fees in a timely and complete manner increases the risk that errors and irregularities will not be detected.

Recommendation 4

We recommend that the campus:

- a. Reconcile application fees received within one month after the end of the academic term being reconciled.
- b. Reconcile state university fees against the number of students reported on the campus census less approved fee waivers within 30 days of the census date for each academic term.

Campus Response

- a. We concur. We have reconciled application fees received for spring 2004 and will do so within one month after the end of the academic term being reconciled in the future. Completed.
- b. We concur. We have reconciled state university fees for spring 2004 and will do so within 30 days of census date in the future. Completed.

REMITTANCES TO THE STATE TREASURER

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

Accumulated deposits of \$25,000 were not remitted by the first day of the week following the accumulation. During our review of remittances to the State Treasury, we noted the following frequencies and amounts remitted:

Month	Number of Deposits	Total Remittances
July 2003	1	\$ 11,837
August 2003	-	-
September 2003	-	-
October 2003	-	-
November 2003	-	-
December 2003	3	2,018,907
January 2004	-	-
February 2004	1	1,551,743

SAM §8091 requires agencies to remit all monies determined to be revenue, reimbursements, abatements, and operating revenue to the State Treasury within 30 days following the date collected, regardless of the amount, unless more frequent remittances are required by law, regulation, or circumstance. Accumulated deposits of \$25,000 will be remitted as soon as possible, but not later than the first day of the week following the accumulation.

The general accounting manager stated that the campus was unaware of the frequency requirement for remitting monies to the State Treasury.

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

Recommendation 5

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

Campus Response

We concur. We have modified our practices so that remittances are made more frequently and at the prescribed frequency. Estimated completion date is September 30, 2004.

BANK SURVEYS

The campus did not have a procedure to periodically request local banks to search for unauthorized bank accounts that use the campus name, address, and federal identification number.

Government Code §13401(b)(3) states that all levels of management of state agencies must be involved in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds.

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

The general accounting manager stated that the campus had not previously considered a search for unauthorized bank accounts.

Not establishing a process to periodically search for unauthorized bank accounts increases the risk of the campus being associated with improper bank accounts.

Recommendation 6

We recommend that the campus establish and implement procedures to periodically request local banks to search for unauthorized bank accounts that use the university's name, address, and federal identification number.

Campus Response

We concur. We have established an annual practice of requesting local banks to review for unauthorized accounts. Completed.

ACCOUNTS RECEIVABLE

Billings for services rendered were not timely invoiced.

A review of 25 invoices issued between December 2002 and January 2004 disclosed that ten were prepared between 3 to 33 months after the services were provided.

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

The vice president for finance and administration stated that the campus was developing a process to improve the billing for services.

Failure to timely invoice outstanding obligations due to the General Fund from other sources reduces working capital and the likelihood of collecting funds.

Recommendation 7

We recommend that the campus strengthen controls to ensure that billings for services rendered are timely invoiced.

Campus Response

We concur. We have streamlined our approach to accounts receivable billing. We now run allocations within the Common Management Systems (CMS) to automatically record revenue on cost reimbursement grants and contracts. These amounts are then used to prepare invoices at the prescribed billing cycle. Grants and contracts account for the majority of the dollar amount of bills we issue. We have also made it more widely known on campus how to get an invoice issued. Completed.

PURCHASING

VENDOR MASTER FILE

Access to the vendor master file was not adequately controlled.

We found that eight individuals had user IDs with update access to vendor information, which included three staff members from purchasing and five from accounting.

SAM §8080.1 requires each state agency to establish and maintain an adequate system of internal control, and states 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 [eleven] types of duties: (3) Maintaining records file and operating mechanized equipment...(4) Initiating disbursement document...(5) Approving disbursement document...(6) 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 vice president for finance and administration stated that access to the vendor master file was under review.

Not properly limiting access to the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 8

We recommend that the campus review access to the vendor master file and take appropriate action to segregate duties and restrict vendor update responsibilities.

Campus Response

We concur. Access to the vendor master file has been restricted to appropriate personnel. Completed.

PROCUREMENT CARDS

Campus procurement card controls did not ensure that appropriate supporting documentation was obtained or appropriate purchases were made.

A review of ten procurement card statements between October and December 2003 disclosed the following:

- ▶ In three instances, a purchase from a vendor exceeded the single purchase limit.
- ▶ In one instance, multiple purchases from a vendor were recorded on the same date that exceeded the single purchase limit.
- ▶ In one instance, total purchases exceeded the monthly purchase limit.
- ▶ In seven instances, business-related food expenses were processed without the required form and approval from the director of administrative services.
- ▶ In one instance, business-related food expenses did not receive prior approval from the director of administrative services.

In addition, we noted that documentation to support authorization of single and monthly purchase limit increases was not maintained on file. As a result, we were unable to review compliance with authorized purchase limit increase requirements.

California State University, Channel Islands (CSUCI) Accounting and Procurement Policies and Procedures, *CSUCI Procurement Credit Cards*, dated October 31, 2003, indicate that:

- ▶ Prohibited purchases include splitting purchases to circumvent the maximum dollar limit (under *Allowable Use of Procurement Cards*, page 1).
- ▶ Authorization for single and monthly purchase limit increases is required by submitting an e-mail request to the procurement card administrator in procurement and support services (under *Card Limits*, page 2).

CSUCI Accounting Policies and Procedures AP-01, *Business Meals*, dated March 10, 2000, requires the approval from the director of administrative services for official university food expenses prior to scheduling an event on a business meal approval form. Examples of events include the hosting of official guests, meetings of a learned society or organization, meetings of an administrative nature, and student events.

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

The general accounting manager stated that the purchases exceeding certain limits and the absence of documented prior approval for food expenses were attributed to cardholder oversight. The manager of budget, procurement and support stated that documentation was not always retained for authorized purchase limit increases.

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

Recommendation 9

We recommend that the campus:

- a. Retain documentation to support authorization of single and monthly purchase limit increases.
- b. Establish and implement procedures to prevent and detect the splitting of purchases to avoid credit card limits.
- c. Strengthen controls over the authorization of business meals to ensure that prior approval from the appropriate official is obtained.

Campus Response

- a. The campus now retains electronic documentation to support authorization of purchase limit increases. Completed.
- b. The campus will establish and implement procedures to detect splitting of purchases to avoid credit card limits. Anticipated completion date is September 30, 2004.
- c. The campus will strengthen controls over the preauthorization of business meals. Anticipated completion date is September 30, 2004.

REVOLVING FUND

Change and purchase funds were not appropriately counted and assigned.

Our review of change and purchase funds disclosed that:

- ▶ Six of the seven change and purchase funds were not subjected to independent count as frequently as required between July 2002 and February 2004. However, progress within this area had been made since April 2003.

- ▶ Four of the seven change and purchase funds did not have a receipt of custody on file for the amount advanced.
- ▶ Consecutive independent counts of a \$250 change fund disclosed cash shortages in September and December 2003 of \$25 and \$20, respectively. After further inquiry, it was noted that the supervisor for the custodian was aware of the cash shortages but corrective action was not taken.

SAM §8111.2 states that transfers of custody will be accomplished only after a personal audit of the fund has been made by the employees directly concerned, and a receipt has been given by the newly assigned custodian to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting department. An employee other than the custodian of the change fund will count it in accordance with the following schedule:

Size of Fund	Frequency of Count
\$200.00 or less	Annually
\$200.01 to \$500.00	Quarterly
\$500.01 to \$2,500.00	Monthly

The general accounting manager stated that control weaknesses for change and purchase funds were due to the transition of responsibility.

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

Recommendation 10

We recommend that the campus:

- a. Strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.
- b. Strengthen controls to ensure that receipts of custody for change and purchase funds are on file.
- c. Establish standards and procedures for cash shortages.

Campus Response

- a. We concur. We have established policies that are now being regularly followed. Completed.
- b. We concur. We have established policies that are now being regularly followed. Completed.
- c. We concur. We will establish procedures and standards for cash shortages or overages. Estimated completion date is September 30, 2004.

CASH DISBURSEMENTS

OVERDRAWN BALANCE

The campus bank account with the State Centralized Treasury System (CTS) did not always have a positive cash balance.

Our review of bank reconciliations disclosed 13 negative month-end balances ranging from \$1,203,652 to \$5,198,135 between October 2002 and November 2003.

SAM §8170 indicates that the SCO will issue a warrant to reimburse an office revolving fund after receiving a Claim Schedule STD. 218.

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

The vice president for finance and administration stated that the overdrawn balances were attributed to the return of initial claim schedules from the SCO that resulted from a transition of responsibilities to the campus. She further stated that the claim schedule process was under development.

Inadequate controls over cash management increase the risk that funds will be administered ineffectively.

Recommendation 11

We recommend that the campus strengthen controls over cash management to ensure that a positive cash balance is maintained with the State CTS.

Campus Response

We concur. Our bank reconciliations now include reviewing the cash balances by fund and, where appropriate, at lower levels of detail. Completed.

BANK RECONCILIATIONS

Bank reconciliations were not complete.

During our review of bank reconciliations between July 2002 and December 2003, we noted that:

- ▶ The treasurer's bank balance was not reconciled to general cash, revolving fund cash, and agency trust fund cash accounts.
- ▶ An unsupported difference of \$134,230 was shown on the bank reconciliations for August 2003 through December 2003.

- ▶ Bank reconciliations were not always signed and dated to provide accountability and to evidence the timeliness of the reconciliation.

SAM §7923 requires departments to reconcile their end-of-the-month bank account balance with the like account maintained in the CTS. When agencies account for more than one fund's General Cash in a bank account, agencies will identify the fund's share on the bank reconciliation. The person reconciling the bank statement will trace every reconciling item between the bank and the agency's records and include an explanation on the reconciliation.

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

The general accounting manager stated that the campus was unaware of the requirements to reconcile the treasurer's bank balance with other fund cash accounts and include the signatures and dates for the reconciliation preparer and reviewer. She further stated that the unsupported differences were attributed to the conversion of accounting data into PeopleSoft.

When bank reconciliations are incomplete, the campus' ability to detect errors and irregularities is diminished, increasing the risk of loss of state funds.

Recommendation 12

We recommend that the campus ensure that bank reconciliations are properly completed and reconciling items are promptly identified and resolved.

Campus Response

We concur. Bank reconciliations are now routinely prepared on a monthly basis and corrections made promptly. Completed.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Federal Form I-9 employment eligibility information was not always timely.

Our review of 15 new hires between January 2001 and August 2003 disclosed that the campus completed employment eligibility verification for six employees between 14 and 41 days following the first day of work.

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 human resources administrator stated that the campus was developing a process to improve the timing for employment eligibility verification.

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

Recommendation 13

We recommend that the campus review and strengthen employment eligibility verification procedures to ensure timely completion.

Campus Response

We concur. Human resources programs and faculty affairs began meeting prior to the audit to develop and implement a process wherein this does not occur. Administrators will be advised through electronic process that no person will be allowed to start employment unless employment eligibility has been established. Estimated completion date is August 2004.

EMPLOYEE SEPARATION

Employee separation procedures did not ensure timely payment of wages due and complete clearance documentation.

Our review of 15 employee separations between August 2001 and December 2003 disclosed that:

- ▶ In eight instances, the final salary payment or salary advance was not completed within 72 hours after the effective separation date.
- ▶ In one instance, the campus clearance form was not on file, and in another instance, it took three weeks to complete a clearance form after the separation date.
- ▶ In seven instances, the campus clearance form was not certified for salary advances.
- ▶ In three instances, the campus clearance form was not certified for credit cards.
- ▶ The campus clearance form did not consider the removal of information technology access and the return of library materials.

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

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.

The human resources administrator stated that the timing of the final salary payment or salary advance was attributed to untimely notification of separations from other departments. She further stated that a clearance process for separating employees was under development.

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

Recommendation 14

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

Campus Response

We concur. Prior to the audit, campus representatives began meeting to update documents used in the separation process. A new procedure has been developed to address areas of concern noted in the audit findings. Processing timelines have been addressed to ensure improved communication with the payroll department to enable timely payment of final wages. Estimated completion date is September 2004.

FIXED ASSETS

Campus controls did not ensure that property was properly recorded, identified, and disposed of.

Our review disclosed that:

- ▶ An inventory listing of all campus property had not been prepared.
- ▶ Identification tags were not being attached to campus property.
- ▶ A physical count of all property had not been made.
- ▶ A property survey board had not been established to decide whether the disposal of surplus property served the best interest of the campus.

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.

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.

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

SAM §8652 requires a physical count of all property and reconciliation of the count with accounting records at least once every three years.

SAM §3520.2 requires each agency to have a duly appointed property survey board that is responsible for determining that when disposing of surplus property, the decision to do so serves the best interest of the state.

The vice president for finance and administration stated that a shortage of staff did not enable the campus to address property controls.

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

Recommendation 15

We recommend that the campus:

- a. Prepare an inventory listing of all property.
- b. Attach an identification tag to all property.
- c. Make a physical count of all property and reconcile the count with accounting records at least once every three years.
- d. Reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger at least quarterly or monthly.
- e. Appoint a property survey board to determine the appropriate disposal of surplus property.

Campus Response

We concur with this recommendation and will proceed to implement over the next three years. Beginning this fall, we will form a property survey board to determine the disposal of surplus property (item e.). At the same time, we will tag (item b.) all new acquisitions and reconcile the acquisitions and dispositions on a quarterly basis (item d.). We will create our full physical inventory over a three-year period (item a.) by performing physical counts of all fixed assets (item d.). We estimate that we will inventory approximately 20 percent in year 1, 30 percent in year 2, and the balance in year 3. Estimated completion date for having the plan in place and the process well under-way is February 2005.

FISCAL INFORMATION TECHNOLOGY

PRODUCTION DATA ACCESS

Certain individuals had inappropriately been assigned Oracle IDs that could have allowed them to modify production PeopleSoft data.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective account and password management. Effective account management is considered to include an appropriate authorization and monitoring of accounts that have access to production data files.

The director of applications and information management stated that guidelines had not yet been established for monitoring the use of production Oracle accounts.

Inadequate control over the use and monitoring of accounts with access to production data increases the risk of unauthorized and undetected modification of production data.

Recommendation 16

We recommend that the campus implement a process for authorizing and monitoring the use of IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. We have implemented a form-driven process to request the creation and disabling of production end-user accounts, which includes sign-off on a confidentiality agreement. At this time, only three people have access to the Oracle database. We are implementing a form to track and approve any requests made to modify any production data done outside of the delivered end-user application. CMS central is working with the datacenter in Salt Lake City to log any modifications done at the database level, but as of yet, a date for this functionality has not been released. We will continue to reevaluate and revise these processes, as necessary, to ensure the highest level of data security and efficiency in the day-to-day operation of the university. Estimated completion date is October 2004.

DISASTER RECOVERY PLAN

A draft information technology (IT) disaster recovery plan (DRP) had been developed to ensure that data would be available for recovery; however, the plan was neither approved by campus management nor implemented.

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.

EO 696, *Implementation of The California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of an emergency management system program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional emergency management system plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The director of applications and information management stated that approval of the IT DRP was pending and he was not certain when formal approval would be obtained.

Without a detailed IT DRP that addresses all critical systems and corresponding business continuation procedures, the campus may not be able to restore computer operations within a reasonable time frame, which could severely impact the ability of the campus to conduct normal business operations.

Recommendation 17

We recommend that the campus approve and establish datelines to implement the IT DRP as soon as possible.

Campus Response

We concur. We are currently revising the draft plan that will go to the university planning and coordinating council for review. At the same time, we will establish a timeline to implement and test the plan. We estimate that the plan will be drafted by November 2004.

NETWORK PASSWORD CONTROLS

Password controls for accounts on the campus network systems were not set to effectively deter unauthorized access.

Specifically, password syntax, history, expiration, and aging rules were not active.

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 vice president for information technology stated that the existing parameter settings had been in place to facilitate implementation and to accommodate the varying needs of the campus users but that the requirements for those settings no longer existed due to architectural changes in the systems.

Ineffective password settings increase the likelihood that password confidentiality could become compromised and could result in unauthorized access.

Recommendation 18

We recommend that password settings for all network authentication be changed to minimize the risk of disclosure and unauthorized system access.

Campus Response

We concur. We are currently addressing this issue with the campus. The following parameters will be looked at for password controls: minimum password length, minimum password history, complexity, and expiration. We plan to implement password controls by the beginning of the fall 2004 semester, September 2004.

SOFTWARE LICENSING

Procedures to monitor software licenses did not ensure compliance with licensing agreements for all campus computers.

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 vice president for information technology stated that the campus policy and existing software purchasing practices did not allow effective monitoring of software licenses and that automated monitoring tools would help to ensure compliance.

Ineffective policies and procedures for monitoring software licenses increase the likelihood that the campus could be in violation of copyright laws and at risk of litigation or monetary fines.

Recommendation 19

We recommend that the campus develop policies and procedures for ensuring compliance with software licensing agreements, and implement a monitoring process to ensure compliance.

Campus Response

We concur. All software purchased by the university is channeled through the information technology department for documentation of licenses. Currently, we are in the process of researching tools offered by multiple vendors that allow tracking of volume licensing agreements, which would enhance procedure compliance. We will not be able to implement an automated solution for another 18 months or so. In the meantime, we will randomly review computers to determine that unlicensed software is not present. That process will begin in September 2004.

INVESTMENTS

Investment earnings were not distributed to trust accounts.

SUAM §3824 states that interest income must be credited to the appropriate fund, subfund, or account. The campus president may define the rules for distribution of interest income, except where interest income is defined in instruments such as bond resolutions, trust fund project agreements, and federal funding contracts. An administrative charge may be assessed for the direct costs of the cash management functions consistent with any limitations, including the president's definition.

The general accounting manager stated that investment procedures were under development.

Not distributing investment earnings trust accounts prevents account managers from fully utilizing their funds.

Recommendation 20

We recommend that the campus allocate investment income within the general ledger to the individual accounts that comprise the investment pool.

Campus Response

We concur and have implemented in closing fiscal year 2004. Completed.

TRUST FUNDS

Trust fund administration did not include the preparation of trust agreements and ensure that trust projects maintained positive balances and budgets were prepared.

Our review of trust funds disclosed that:

- ▶ Accounts were established without a supporting trust agreement.
- ▶ Three trust projects had negative cash balances ranging from \$950 to \$2,772,774 and negative fund balances ranging from \$16,427 to \$2,874,624 as of June 30, 2003.
- ▶ Budgets were not always prepared for trust projects.

SAM §19440.1 indicates that each trust account established shall be supported by documentation as to the type of trust, donor, or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on the use of monies for administrative or overhead costs.

SUAM §3710.01 indicates that each trust project must maintain a positive cash and a positive fund balance.

SUAM §3710.04 indicates that preparation and approval of a budget assist in the management of a trust project.

The general accounting manager stated that the campus was unaware of the requirement for documented trust agreements. The vice president for finance and administration stated that the negative trust balances were attributed to various year-end close issues. She further stated that a budget process for trust projects was under development.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss due to poor trust fund management.

Recommendation 21

We recommend that the campus:

- a. Prepare documented agreements to support each trust account.
- b. Establish oversight procedures to ensure that all trust projects maintain positive fund balances.
- c. Require that trust project administrators prepare an annual budget for each trust project.

Campus Response

- a. We concur. This project has begun. Estimated completion date is September 30, 2004.
- b. We concur. As bank reconciliations are completed, trust cash balances will be reviewed and monitored. Completed.
- c. We concur. We will require all trust funds that have over \$25,000 to prepare a budget for fiscal year 2005. Completed.

RECONCILIATIONS

Reconciliations were not always prepared and complete; those that were prepared were not done so in a timely manner.

During our review of reconciliations in February 2004, we noted that:

- ▶ Balances reported on subsidiary receivable aging schedules for outstanding student accounts were not being reconciled to the general ledger.
- ▶ Reconciliations with the State Controller's balances for August through November 2003 were not completed until January 2004.

- ▶ Reconciliations for uncleared collections, revolving fund, and State Controller's balances were not always signed and dated to provide accountability and to evidence the timeliness of the reconciliation.

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

The general accounting manager stated that a reconciliation process was under development for student receivables. She further stated that the campus was unaware of the requirement to sign and date the reconciliations.

Not preparing reconciliations in a timely and complete manner compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 22

We recommend that the campus strengthen procedures to ensure that reconciliations are prepared in a complete and timely manner.

Campus Response

We concur. Reconciliations are now our highest priority. Estimated completion date is September 30, 2004.

POLICIES AND PROCEDURES

Policies and procedures that impact the system of internal accounting and administrative control for the campus were incomplete or not documented.

We noted that policies and procedures were not documented or were incomplete for the cash receipts, accounts receivable, shipment receiving, revolving fund, cash disbursements, fixed assets, investments, and trust fund functions.

SAM §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are non-existent.

The vice president for finance and administration stated that policies and procedures were in various stages of development.

The absence of properly documented and effectively communicated procedural and/or operational policies and procedures increases the risk of deficient internal controls and could result in employees performing unnecessary tasks and allocating time to risks that are minimal or non-existent.

Recommendation 23

We recommend that the campus develop and enact, to the degree possible, a strategy to prepare policies and procedures and distribute them to employees responsible for the respective functions.

Campus Response

We concur. As we grow, we continue to establish new policies and procedures and distribute to the campus community. However, we will identify high priority policies that are needed, assign the responsibility for drafting to an individual and establish a reasonable timeline for getting the policies reviewed and approved. Estimated completion date is October 2004.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Richard R. Rush	President
Raudel Banuelos	Assistant Director, Grounds and Garage
Jacinta Bastone	Payroll Supervisor
John Burckert	Analyst Programmer
Christina Canchola	Cashier
James Cochran	Administrative Assistant, Office of the President
Teresa Coles	Accountant
Joanne Coville	Vice President, Finance and Administration
Emily Deakin	Manager, General Accounting
Lashanor Doolittle	Manager, Public Safety Support Services
Arthur Flores	Associate Vice President, Human Resources
Robert Gutierrez	Manager, Communications Network
Theresa Hernandez	Accountant
Munawwar Khan	Associate Vice President, Information Technology
Leah Kirklin	Manager, Budget, Procurement and Support
Melissa Klep	Manager, Budget and Internal and External Reporting
Anna Pavin	Human Resources Administrator
Sandra Sanchez	Lead Technician, Accounts Payable
Ira Schoenwald	Associate Vice President, Academic Affairs, Faculty Affairs and Academic Resources
Jeffrey Seeger	Director, Applications and Information Management
Maria Tauber	Academic Personnel Coordinator
Rhonda Tyacke	Executive Assistant to the Vice President, Finance and Administration
Leticia Vargas	Cashier
Jenny Wang	Lead Technician, Accounts Receivable

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the CSU 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.

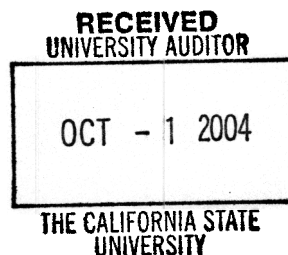
D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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.



Division of Finance and Administration

October 1, 2004



Mr. Larry Mandel
 University Auditor
 401 Golden Shore, 4th Floor
 Long Beach, CA 90802-4200

Dear Larry:

On behalf of President Rush, I am submitting the campus revised response to the recommendations of Audit Report 03-12, FISMA at California State University Channel Islands. This response has also been forwarded via email to lmandel@calstate.edu.

Please contact me for additional information and follow up.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Joanne Coville'.

Joanne Coville
 Vice President for Finance
 and Administration

JC/rt
 Enclosure

cc: President Richard Rush
 Emily Deakin, Manager, General Accounting
 Missy Klep, Manager, Budget and Internal & External Reporting

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**CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS**

**FISMA
AUDIT REPORT NO. 03-12**

CASH RECEIPTS

MAIN AND SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Limit access to the cashier's office.
- b. Reevaluate the use of an armored car service to deliver bank deposits or consider the regular use of a public safety escort.
- c. Establish and implement procedures to ensure that cashiering system accounts are deleted in a timely manner.
- d. Establish and implement procedures to reconcile parking receipts to the general ledger.

Campus Response

- a. We concur. We have built a secure area for cashiers within the enrollment center. Cashiers took occupancy in early July. Completed.
- b. We are reevaluating use of courier service especially now that the employee who did bank deposit trips retires in July. Estimated completion date is October 31, 2004.
- c. We concur. We have added this to our separation procedure. Estimated completion date is October 31, 2004.
- d. We concur. We reconcile between parking and the general ledger on a monthly basis. Completed

LARGE DEPOSIT NOTIFICATIONS

Recommendation 2

We recommend that the campus establish and implement procedures to notify the STO whenever deposits for any one account exceed \$100,000 and document its notification.

Campus Response

We have established and implemented a procedure to notify STO whenever deposits for any one account exceed \$100,000. Completed.

FEE AUTHORIZATION

Recommendation 3

We recommend that the campus increase the number of students appointed by the campus student body association to constitute a majority of the voting members of the campus fee advisory committee.

Campus Response

We concur. We have added more students to the fee committee and will extend extra efforts to get them to participate in the deliberations. Completed.

FEE RECONCILIATIONS

Recommendation 4

We recommend that the campus:

- a. Reconcile application fees received within one month after the end of the academic term being reconciled.
- b. Reconcile state university fees against the number of students reported on the campus census less approved fee waivers within 30 days of the census date for each academic term.

Campus Response

- a. We concur. We have reconciled application fees received for spring 2004 and will do so within one month after the end of the academic term being reconciled in the future. Completed.
- b. We concur. We have reconciled state university fees for spring 2004 and will do so within 30 days of census date in the future. Completed.

REMITTANCES TO THE STATE TREASURER

Recommendation 5

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

Campus Response

We concur. We have modified our practices so that remittances are made more frequently and at the prescribed frequency. Estimated completion date is September 30, 2004.

BANK SURVEYS

Recommendation 6

We recommend that the campus establish and implement procedures to periodically request local banks to search for unauthorized bank accounts that use the university's name, address, and federal identification number.

Campus Response

We concur. We have established an annual practice of requesting local banks to review for unauthorized accounts. Completed.

ACCOUNTS RECEIVABLE

Recommendation 7

We recommend that the campus strengthen controls to ensure that billings for services rendered are timely invoiced.

Campus Response

We concur. We have streamlined our approach to AR billing. We now run allocations within CMS to automatically record revenue on cost reimbursement grants and contracts. These amounts are then used to prepare invoices at the prescribed billing cycle. Grants and contracts account for the majority of the dollar amount of bills we issue. We have also made it more widely known on campus how to get an invoice issued. Completed.

PURCHASING

VENDOR MASTER FILE

Recommendation 8

We recommend that the campus review access to the vendor master file and take appropriate action to segregate duties and restrict vendor update responsibilities.

Campus Response

We concur. Access to the vendor master file has been restricted to appropriate personnel. Completed.

PROCUREMENT CARDS

Recommendation 9

We recommend that the campus:

- a. Retain documentation to support authorization of single and monthly purchase limit increases.
- b. Establish and implement procedures to prevent and detect the splitting of purchases to avoid credit card limits.
- c. Strengthen controls over the authorization of business meals to ensure that prior approval from the appropriate official is obtained.

Campus Response

- a. The campus now retains electronic documentation to support authorization of purchase limit increases. Completed.
- b. The campus will establish and implement procedures to detect splitting of purchases to avoid credit card limits. Anticipated completion date is September 30, 2004.
- c. The campus will strengthen controls over the pre-authorization of business meals. Anticipated completion date is September 30, 2004.

REVOLVING FUND

Recommendation 10

We recommend that the campus:

- a. Strengthen controls to ensure that independent counts are performed at prescribed frequency intervals.
- b. Strengthen controls to ensure that receipts of custody for change and purchase funds are on file.
- c. Establish standards and procedures for cash shortages.

Campus Response

- a. We concur. We have established policies that are now being regularly followed. Completed.
- b. We concur. We have established policies that are now being regularly followed. Completed.
- c. We concur. We will establish procedures and standards for cash shortages or overages. Estimated completion date is: September 30, 2004

CASH DISBURSEMENTS

OVERDRAWN BALANCE

Recommendation 11

We recommend that the campus strengthen controls over cash management to ensure that a positive cash balance is maintained with the State CTS.

Campus Response

We concur. Our bank reconciliations now include reviewing the cash balances by fund and, where appropriate at lower levels of detail. Completed.

BANK RECONCILIATIONS

Recommendation 12

We recommend that the campus ensure that bank reconciliations are properly completed and reconciling items are promptly identified and resolved.

Campus Response

We concur. Bank reconciliations are now routinely prepared on a monthly basis and corrections made promptly. Completed.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Recommendation 13

We recommend that the campus review and strengthen employment eligibility verification procedures to ensure timely completion.

Campus Response

We concur. Human Resources Programs and Faculty Affairs began meeting prior to the Audit to develop and implement a process wherein this does not occur. Administrators will be advised through electronic process that no person will be allowed to start employment unless employment eligibility has been established. Estimated completion date is August 2004.

EMPLOYEE SEPARATION

Recommendation 14

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

Campus Response

We concur. Prior to the audit, campus representatives began meeting to update documents used in the separation process. A new procedure has been developed to address areas of concern noted in the audit findings. Processing timelines have been addressed to ensure improved communication with the Payroll department to enable timely payment of final wages. Estimated completion date is September 2004.

FIXED ASSETS

Recommendation 15

We recommend that the campus:

- a. Prepare an inventory listing of all property.
- b. Attach an identification tag to all property.
- c. Make a physical count of all property and reconcile the count with accounting records at least once every three years.
- d. Reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger at least quarterly or monthly.
- e. Appoint a property survey board to determine the appropriate disposal of surplus property.

Campus Response

We concur with this recommendation and will proceed to implement over the next 3 years. Beginning this Fall, we will form a Property Survey Board to determine the disposal of surplus property (item e.) At the same time we will tag (item b.) all new acquisitions and reconcile the acquisitions and dispositions on a quarterly basis (item d). We will create our full physical inventory over a 3 year period (item a.) by performing physical counts of all fixed assets (item d.). We estimate that we will inventory approximately 20% in year 1, 30% in year 2 and the balance in year 3. Estimated completion date for having the plan in place and the process well under way is February 2005.

FISCAL INFORMATION TECHNOLOGY

PRODUCTION DATA ACCESS

Recommendation 16

We recommend that the campus implement a process for authorizing and monitoring the use of IDs with access to production data to ensure that all such access is authorized and appropriate.

Campus Response

We concur. We have implemented a form driven process to request the creation and disabling of production end user accounts, which includes sign-off on a confidentiality agreement. At this time only 3 people have access to the Oracle database. We are implementing a form to track and approve any requests made to modify any production data done outside of the delivered end-user application. CMS central is working with the datacenter in Salt Lake City to log any modifications done at the database level, but as of yet a date for this functionality has not been released. We continue reevaluate and revise these processes, as necessary, to ensure the highest level of data security and efficiency in the day to day operation of the University. Estimated completion date is October 2004.

DISASTER RECOVERY PLAN

Recommendation 17

We recommend that the campus approve and establish datelines to implement the IT DRP as soon as possible.

Campus Response

We concur. We are currently revising the draft plan that will go to the University Planning and Coordinating Council for review. At the same time, we will establish a timeline to implement and test the plan. We estimate that the plan will be drafted by November 2004.

NETWORK PASSWORD CONTROLS

Recommendation 18

We recommend that password settings for all network authentication be changed to minimize the risk of disclosure and unauthorized system access.

Campus Response

We concur. We are currently addressing this issue with the campus. The following parameters will be looked at for password controls; min password length, min password history, complexity, and expiration. We plan to implement password controls by the beginning of the fall 2004 semester, September 2004.

SOFTWARE LICENSING

Recommendation 19

We recommend that the campus develop policies and procedures for ensuring compliance with software licensing agreements, and implement a monitoring process to ensure compliance.

Campus Response

We concur. All software purchased by the University is channeled through the Information Technology department for documentation of licenses. Currently, we are in the process of researching tools offered by multiple vendors which allow tracking of volume licensing agreements which would enhance procedure compliance. We won't be able to implement an automated solution for another 18 months or so. In the mean time, we will randomly review computers to determine that unlicensed software is not present. That process will begin in September 2004.

INVESTMENTS

Recommendation 20

We recommend that the campus allocate investment income within the general ledger to the individual accounts that comprise the investment pool.

Campus Response

We concur and have implemented in closing fiscal year 2004. Completed.

TRUST FUNDS

Recommendation 21

We recommend that the campus:

- a. Prepare documented agreements to support each trust account.
- b. Establish oversight procedures to ensure that all trust projects maintain positive fund balances.
- c. Require that trust project administrators prepare an annual budget for each trust project.

Campus Response

- a. We concur. This project has begun. Estimated completion date is September 30, 2004.
- b. We concur. As bank reconciliations are completed, trust cash balances will be reviewed and monitored. Completed.
- c. We concur. We will require all trust funds that have over \$25,000 to prepare a budget for the fiscal year 2005. Completed.

RECONCILIATIONS

Recommendation 22

We recommend that the campus strengthen procedures to ensure that reconciliations are prepared in a complete and timely manner.

Campus Response

We concur. Reconciliations are now our highest priority. Estimated completion date is September 30, 2004.

POLICIES AND PROCEDURES

Recommendation 23

We recommend that the campus develop and enact, to the degree possible, a strategy to prepare policies and procedures and distribute them to employees responsible for the respective functions.

Campus Response

We concur. As we grow we continue to establish new policies and procedures and distribute to the campus community. However, we will identify high priority policies that are needed, assign the responsibility for drafting to an individual and establish a reasonable timeline for getting the policies reviewed and approved. Estimated completion date is October 2004.

THE CALIFORNIA STATE UNIVERSITY

OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 22, 2004

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

MEMORANDUM

FRESNO

FULLERTON

TO: Mr. Larry Mandel
University Auditor

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-12 on *FISMA*,
California State University, Channel Islands

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of October 22, 2004, I accept the response as submitted with the draft final report on *FISMA*, California State University, Channel Islands.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/amd

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Richard Rush, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS