

FISMA
CALIFORNIA STATE UNIVERSITY,
CHICO

Report Number 06-02
August 30, 2006

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ABBREVIATIONS

ANSE	Advance Notification of Separating Employee
CSU	California State University
CSUC	California State University, Chico
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SCF	Separation Clearance Form
SHC	Student Health Center
SUAM	State University Administrative Manual
UP	University Police

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by Government Code, Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

California State University, Chico (CSUC) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Assets are safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- ▶ Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.

We visited the CSUC campus from April 3, 2006, through June 7, 2006, and made a study and evaluation of the accounting and administrative control in effect as of June 7, 2006. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, purchasing, payroll and personnel, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, CSUC's accounting and administrative control in effect as of June 7, 2006, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that

would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CASH RECEIPTS [5]

Cash control weaknesses were found at two of the three satellite cashiering areas visited. Reconciliations of parking permit inventory to cash receipts were not always signed and dated by the preparer and reviewer, accountability for cash receipts was not always localized at the student health center and university police (UP), and a written record of individuals with safe access was not maintained at UP. In addition, reconciliations of uncleared collections were not signed and dated by the preparer and reviewer.

ACCOUNTS RECEIVABLE [8]

Pursuit of delinquent payroll accounts receivable and the write-off of long-outstanding salary advances needed improvement. Collection letters were not timely and consistently sent for 7 of 14 outstanding salary advances reviewed, and tax offset had not been pursued for three of those seven advances. Further, the campus had not pursued write-off or discharge from accountability for long-delinquent and uncollectible payroll advances from 2002 through 2004.

PURCHASING [9]

Open purchase orders were not always timely investigated and resolved. A review of open purchase orders as of March 2006 disclosed five open purchase orders from 2003 through 2004 with unspent encumbrances totaling \$50,257.

PAYROLL AND PERSONNEL [10]

Federal Form I-9, Employment Eligibility Verification, was not always timely completed. A review of ten new hires disclosed three instances where Form I-9 was not completed within the required three days. In addition, employee separation procedures did not ensure complete clearance documentation. A review of 11 employee separations between July 2004 and December 2005 disclosed that clearance forms were not on file in four instances.

TRUST FUNDS [12]

Trust fund expenditures were not always properly approved. A review of 24 trust fund expenditures disclosed that nine expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

INTRODUCTION

PURPOSE

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

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled, and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2004/05 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 2005 to February 2006. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of revolving fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ Procedures for initiating, evaluating, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond June 7, 2006. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

MAIN AND SATELLITE CASHIERING

Cash control weaknesses were found at two of the three satellite cashiering areas visited.

The satellite cashiering locations reviewed included the student records office, the student health center (SHC), and university police (UP).

Parking Receipts

Reconciliations of parking permit inventory to cash receipts were not always signed and dated by the preparer and reviewer to provide accountability and to evidence the timeliness of the reconciliation.

Although main cashiering was responsible for the sale of parking permits, accounts payable was responsible for the reconciliation of parking permit inventory to cash receipts. Our review of monthly permanent parking decal reconciliations from July 2005 to March 2006 and cash decal reconciliations from summer 2003 to fall 2005, which are performed at the end of each academic term, disclosed that the reconciliations were not always signed and dated by the preparer and reviewer.

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

The director of accounting operations stated that the campus parking reconciliation process was developed on an electronic spreadsheet so as to avoid unnecessary paper. He added that each month's reconciliation was added as an additional column to the file, and the file date was updated each time the file was saved.

Accountability

Accountability for cash receipts was not always localized.

We found that:

- ▶ At the SHC, payments (cash and checks) were transferred from other areas of the SHC and were centrally deposited at the pharmacy without the use of transfer receipts.
- ▶ At UP, neither transfer receipts nor separate logons were used to establish accountability when multiple cashiers used the same cash register.

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

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

The director of student financial services stated that the campus satellite cashiering audit questionnaire received from the SHC did not disclose that funds were receipted at locations within the SHC other than the pharmacy, and that the questionnaire received from UP did not disclose that multiple employees used the same change fund without check-out or transfer of receipts.

Safe Access Records

UP did not maintain a written record of individuals with the safe combination and the date when the combination was last changed.

SAM §8024 states that a record will be kept showing the date the safe combination was last changed and the names of persons knowing the present combination.

The director of student financial services stated that the campus satellite cashiering audit questionnaire indicated funds were kept in the cash register at all times and the questions about vaults/safes for this area only provided information about the evidence safe, which was not used for cash receipts.

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

Recommendation 1

We recommend that the campus:

- a. Strengthen procedures to ensure that all parking permit reconciliations are signed and dated by the preparer and reviewer.
- b. Implement the use of transfer receipts at the SHC to localize accountability over currency and checks received and transferred to the pharmacy.
- c. Localize accountability over receipts at UP when multiple cashiers use the same cash register.
- d. Maintain a written record of individuals with knowledge of the UP safe combination and the date the combination was last changed.

Campus Response

We concur.

- a. We have modified our procedure so that the summary reconciliation sheet is printed monthly with appropriate preparer and reviewer signatures.
- b. The SHC has implemented transfer receipts.
- c. UP has implemented a cash audit process at the end and beginning of each new cashier's shift.
- d. The vault combination has been changed and a log of individuals with UP safe combination and date of change has been prepared.

Status: Completed.

UNCLEARED COLLECTIONS

Reconciliations of uncleared collections were incomplete.

Our review of the uncleared collections reconciliations for December 2005 through February 2006 disclosed that the reconciliations were not signed and dated by the preparer and reviewer.

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

The director of accounting operations stated that accounting operations had experienced several management changes over the past couple of years and that this appeared to have been overlooked during that period.

Failure to sign and date reconciliations compromises accountability.

Recommendation 2

We recommend that the campus strengthen procedures to ensure that reconciliations of uncleared collections are signed and dated by the preparer and reviewer.

Campus Response

We concur. We have strengthened our procedures to ensure that monthly reconciliations of uncleared collections are prepared and reviewed in a timelier manner. Status: Completed.

ACCOUNTS RECEIVABLE

Pursuit of delinquent payroll accounts receivable and the write-off of long-outstanding salary advances needed improvement.

Our review of 14 outstanding salary advances and the February 28, 2006, payroll receivables aging report disclosed that:

- ▶ A sequence of three collection letters had not been sent in 30-day intervals for 7 of the 14 outstanding salary advances reviewed. In addition, tax offset had not been pursued with the Franchise Tax Board for three of those seven outstanding salary advances.
- ▶ Fifty-five percent of the payroll receivables from the aging report dated February 28, 2006, totaling \$12,045 were more than 90 days old. Although \$8,935 of this amount related to salary advances from 2002 through 2004 for nine employees, five of whom were separated at the time of our review, the campus had not pursued write-off or discharge from accountability.

Government Code §19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from office revolving fund salary and travel advances and payroll warrants issued by the State Controller's Office.

SAM §8776.6 and §8776.7 provide collection procedures to be employed in the collection of amounts due from employees, including a sequence of three collection letters issued at 30-day intervals.

SAM §8790.3 states that offset is normally made only after giving notice to the debtor and providing him/her an opportunity to present any valid objection he/she may have to the use of the offset procedure.

State University Administrative Manual (SUAM) §3813 states that when salary advances due the state are not recoverable from the employee after a 120-day period, action to write-off the account should be taken. This includes filing a claim on Std. Form 27 with the State Board of Control.

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

Executive Order 616, *Discharge of Accountability*, dated April 19, 1994, delegates authority 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. Discharge from accountability does not release debtors from their obligation to the campus.

The director of payroll, benefits and system support services stated that the payroll analyst had specific collection procedures to follow, which included the three collection letters and the time frame involved; however, because of the Common Management Systems implementation and current workload, the 30-day interval was not being met. She further stated that the payroll and financial student services offices worked together on tax offset procedures, but the steps were not clear, which resulted in miscommunication regarding specific tax offset procedures. She added that there was also miscommunication regarding salary advances, and write-offs were not requested as payroll continued collection attempts.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk that the receivables will not be properly reflected in campus financial statements.

Recommendation 3

We recommend that the campus:

- a. Strengthen procedures to ensure that payroll accounts receivable are promptly pursued through the use of collection letters and tax offset.
- b. Analyze payroll accounts receivable to determine which receivables are uncollectible and write-off or request discharge from accountability, as warranted.

Campus Response

We concur.

- a. The director of payroll, benefits and system support services will manually review all open payroll accounts receivable on a monthly basis. This review will ensure appropriate notification has been completed in a timely manner. Expected implementation date: January 31, 2007.
- b. Items not collected or showing no payment activity after the appropriate notification process will be referred for review to the financial services office to determine which receivables are uncollectible. Write-off or request discharge from accountability will proceed as warranted. Expected implementation date: January 31, 2007.

PURCHASING

Open purchase orders were not always timely investigated and resolved.

Our review of open purchase orders as of March 29, 2006, disclosed five open purchase orders from 2003 to 2004 with unspent encumbrances totaling \$50,257.

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

California State University, Chico (CSUC) policies and procedures for reviewing the open commitments report state the open commitment report shall be reviewed at least four times a year and that an aggressive review is to be performed every November for prior year encumbrances.

The director of procurement and contract services stated that due to workload, staffing reductions, and the continuing PeopleSoft impact, open commitments had not been reviewed in as timely a manner as desired.

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

Recommendation 4

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

Campus Response

We concur. A revised written procedure has been developed that strengthens the monitoring of open commitments and spreads the analysis/follow-up task between the accounts payable and procurement and contract services departments, with responsibility on the supervisor and director of the departments. Status: Completed.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

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

Our review of ten new hires between August 2004 and February 2006 disclosed three instances where Form I-9 was not completed within the required three days. The completion time ranged from 23 to 45 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 director of payroll, benefits and system support services stated that the employees did not come to the payroll office in a timely fashion, and the associated departments did not submit all appointments to the payroll office before the employees began work.

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

Recommendation 5

We recommend that the campus strengthen procedures to ensure that I-9 forms are completed within three business days of the date of employment.

Campus Response

The payroll office will provide training to all attendance clerks regarding the procedures, deadlines, and requirements of the employment eligibility verification process. The director of payroll will work with campus departments to develop a process so that campus departments are aware if new employees have not completed all documentation. Additional procedures will be put in place to notify deans/directors when new employees are not in compliance and should not be allowed to work. Expected implementation date: January 31, 2007.

EMPLOYEE SEPARATION

Employee separation procedures did not ensure complete clearance documentation.

Our review of 11 employee separations between July 2004 and December 2005 disclosed that clearance forms were not on file for four of the employees.

CSUC separation procedures state that campus departments are to prepare an Advance Notification of Separating Employee (ANSE) form and send it via e-mail to "ANSE" from the global listing for further distribution. The department will then prepare and complete the separation clearance form and verify clearances with all applicable departments.

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 director of payroll, benefits and system support services stated that procedures were in place, but the ability to enforce them was limited because the campus cannot withhold final warrants.

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

Recommendation 6

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

Campus Response

Separation clearance procedures are in place; however, enforcement is difficult since the campus is no longer able to hold final warrants pending completion of the process. To strengthen employee separation procedures, the campus will conduct training with academic and administrative staff responsible for payroll-related functions, as well as initiate a Separation Clearance form (SCF) from university cashiers whenever notified of a final warrant by payroll for which there is not a SCF on file. Expected implementation date: January 31, 2007.

TRUST FUNDS

Trust fund expenditures were not always properly approved.

Our review of 24 trust fund expenditures dated between October 2004 and February 2006 disclosed that nine expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

SAM §19440.1 provides that each trust account established shall be supported by documentation of the persons authorized to withdraw or expend funds, their specimen signatures, the purpose of the trust, and restrictions on the use of monies.

The director of accounting operations stated that the staff member responsible for verifying expenditure authorizations elicited approval via e-mail or over the phone from those individuals listed as a signatory on the trust agreement; however, the staff member did not retain documentation of the e-mail or document phone conversations that occurred with those individuals.

Failure to obtain proper authorization for trust expenditures increases the risk of inappropriate expenditures and loss.

Recommendation 7

We recommend that the campus strengthen procedures to ensure that trust fund expenditures are properly authorized.

Campus Response

We concur. We have reviewed our trust expenditure authorization procedures and revised them so as to ensure that trust expenditures are properly authorized and that authorization is properly documented. Status: Completed.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Paul J. Zingg	President
Miles Allen	Director, Business and Finance Technologies
Andi Beach	Director, Payroll, Benefits and System Support Services
Carol Blessum	Warehouse Operations Manager
Jan Burnham	Director, Student Financial Services
Dick Chamberlain	Cashiering Supervisor
Esequiel Chavez	Shipping and Receiving Assistant
Jamie Damon	Accounting Technician
Carol Ebel	Pharmacy Technician
David Foreman	Director, Accounting Operations
Denise Gavello	Accounting Technician
Debbie Gott	Chief Pharmacist
Dennis Graham	Vice President for Business and Finance
Nicol Gray	Accounting Technician
Paul Harbison	Shipping and Receiving Assistant
Matt Horn	Accountant
Pattie Jenkins	Director, Procurement and Contract Services
Bill Jones	Associate Vice President for Financial Services
Cindy Kelly	Accounts Payable Technician
Michelle Korte	Director, Financial Reporting and Property
Larry Langwell	Supervisor, Student Records Office
Debra McElroberts	Director, Computing Services
Doreen Mendes	Accounting Technician
Lesley Nix-Baker	Vice Provost for Human Resources
Katy Rollo	Accounting Technician II
Lisa Saldano	Administrative Assistant
Patti Salomon	Financial Reporting Analyst
Sondra Sample	Supervisor, Accounts Payable
Ken Sator	Director, Environmental Health and Safety
Jason Smock	Property Clerk II
Samuel Zamarron	Shipping and Receiving Assistant

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

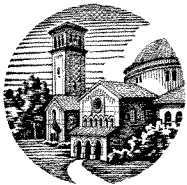
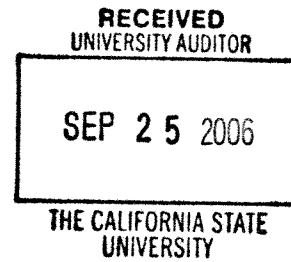
There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.

California State University, Chico
Chico, California 95929-0025
Vice President for Business and Finance
Office: 530-898-6231 Fax: 530-898-4513
E-mail: dcgraham@csuchico.edu



September 26, 2006

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



Dear Mr. Mandel:

Enclosed are CSU, Chico's responses to the FISMA Audit Report 06-02. If you have any questions, please do not hesitate to contact us.

Sincerely,

Dennis C. Graham
Vice President for Business and Finance

cc: Paul Zingg
Bill Jones
Beverly Delker Gentry
Michelle Korte

FISMA
CALIFORNIA STATE UNIVERSITY,
CHICO

Report Number 06-02
August 30, 2006

CASH RECEIPTS

MAIN AND SATELLITE CASHIERING

Recommendation 1

We recommend that the campus:

- a. Strengthen procedures to ensure that all parking permit reconciliations are signed and dated by the preparer and reviewer.
- b. Implement the use of transfer receipts at the SHC to localize accountability over currency and checks received and transferred to the pharmacy.
- c. Localize accountability over receipts at UP when multiple cashiers use the same cash register.
- d. Maintain a written record of individuals with knowledge of the UP safe combination and the date the combination was last changed,

Campus Response

- a. We concur. We have modified our procedure so that the summary reconciliation sheet is printed monthly with appropriate preparer and reviewer signatures. Status: Complete.
- b. We concur. SHC has implemented transfer receipts. Status: Complete.
- c. We concur. UPD has implemented a cash audit process at the end and beginning of each new cashier's shift. Status: Complete.
- d. We concur. Vault combination has been changed and a log of individuals with UPD safe combination and date of change has been prepared. Status: Complete.

UNCLEARED COLLECTIONS

Recommendation 2

We recommend that the campus strengthen procedures to ensure that reconciliations of uncleared collections are signed and dated by the preparer and reviewer.

Campus Response

We concur. We have strengthened our procedures to assure that monthly reconciliations of uncleared collections are prepared and reviewed in a timelier manner. Status: Complete.

ACCOUNTS RECEIVABLE**Recommendation 3**

We recommend that the campus:

- a. Strengthen procedures to ensure that payroll accounts receivable are promptly pursued through the use of collection letters and tax offset.
- b. Analyze payroll accounts receivable to determine which receivables are uncollectible and write-off or request discharge from accountability, as warranted.

Campus Response

- a. We concur. Director of Payroll, Benefits, and HRIS will manually review all open Payroll Accounts Receivable on a monthly basis. This review will ensure appropriate notification has been completed in a timely manner. Status: Incomplete with an expected implementation date of January 31, 2007.
- b. We concur. Items not collected or showing no payment activity after the appropriate notification process will be referred for review to the Financial Services office to determine which receivables are uncollectible. Write-off or request from discharge from accountability will proceed as warranted. Status: Incomplete with an expected implementation date of January 31, 2007.

PURCHASING**Recommendation 4**

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

Campus Response

We concur. A revised written procedure has been developed that strengthens the monitoring of open commitments and spreads the analysis/follow-up task between the Accounts Payable and Procurement & Contract Services departments, with responsibility on the supervisor and director of the departments. Status: Complete.

PAYROLL AND PERSONNEL

EMPLOYMENT ELIGIBILITY VERIFICATION

Recommendation 5

We recommend that the campus strengthen procedures to ensure that I-9 forms are completed within three business days of the date of employment.

Campus Response

The Payroll Office will provide training to all Attendance Clerks regarding the procedures, deadlines, and requirements of the Employment Eligibility Verification process. The Director of Payroll will work with campus departments to develop a process so that campus departments are aware if new employees have not completed all documentation. Additional procedures will be put in place to notify Deans/Directors when new employees are not in compliance and should not be allowed to work. Status: Incomplete with an expected implementation date of January 31, 2007.

EMPLOYEE SEPARATION

Recommendation 6

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

Campus Response

Separation Clearance Procedures are in place; however, enforcement is difficult since campus is no longer able to hold final warrants pending completion of the process. To strengthen employee separation procedures, campus will conduct training with academic and administrative staff responsible for payroll-related functions, as well as initiate a Separation Clearance Form (SCF) from University Cashiering whenever notified of a Final Warrant by Payroll for which there is not a SCF on file. Status: Incomplete with an expected implementation date of January 31, 2007.

TRUST FUNDS

Recommendation 7

We recommend that the campus strengthen procedures to ensure that trust fund expenditures are properly authorized.

Campus Response

We concur. We have reviewed our trust expenditure authorization procedures and revised them so as to assure that trust expenditures are properly authorized and that authorization is properly documented. Status: Complete.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 20, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

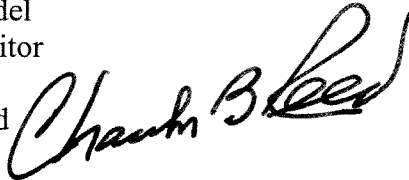
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 06-02 on *FISMA*,
California State University, Chico

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of October 20, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, Chico.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. Dennis C. Graham, Vice President for Business and Finance
Dr. Paul J. Zingg, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS