

FISMA
CALIFORNIA STATE UNIVERSITY,
FULLERTON

Audit Report 06-12
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ABBREVIATIONS

CMS	Common Management Systems
CSU	California State University
CSUF	California State University, Fullerton
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
P&T	Parking and Transportation
SAM	State Administrative Manual
SUAM	State University Administrative Manual
UEE	University Extended Education

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, Fullerton (CSUF) 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 CSUF campus from January 29, 2007, through March 9, 2007, and made a study and evaluation of the accounting and administrative control in effect as of March 9, 2007. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, cash disbursements, payroll and personnel, fixed assets, fiscal information technology, and reconciliations. 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, CSUF's accounting and administrative control in effect as of March 9, 2007, taken as a whole, was sufficient to meet the objectives stated above.

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

unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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

CASH RECEIPTS [6]

The drop box at main cashiering was not well secure, which exposed its contents to all employees in the general cashiering office area.

ACCOUNTS RECEIVABLE [6]

Contingent accounts receivable were not always recorded for parking and transportation (P&T), and collection activity provided by an external agency was not well controlled. For example, a parking citation general ledger control account total had not been established in campus accounting records. At December 2006, the unadjusted balance of outstanding parking citations totaled approximately \$527,003. Further, P&T did not reconcile collection and citation cancellation activity performed by the Phoenix Group to P&T data. In addition, pursuit of delinquent student, third-party, and payroll accounts receivables needed improvement. This is a repeat finding from the prior FISMA audit. A review of student and third-party accounts receivables as of December 31, 2006, and payroll accounts receivable as of the November 31, 2006, disclosed that a significant portion of the receivables was aged, and collection activities were inconsistent or not performed.

CASH DISBURSEMENTS [10]

Checks were not maintained in a locked and secure area prior to pickup for distribution. It was noted that printed checks in unsealed envelopes awaiting pickup were stored in an open mail slot in an area that served as a copy/supply room and kitchen.

PAYROLL AND PERSONNEL [11]

Federal Form I-9, Employment Eligibility Verification, was not always timely completed. A review of 20 new hires disclosed that the Form I-9 was not completed within the required three days in four instances. Completion time ranged from 4 to 14 days.

FIXED ASSETS [11]

Administration of fixed assets did not ensure that property was properly accounted for, identified, and timely reconciled to campus accounting records. For example, a physical inventory of all property was not performed and reconciled to the general ledger. For the period 1995 to present, the campus was only able to provide documentation to support physical verification of capitalized fixed assets totaling about

\$6,464,965 or 25% of the \$25,997,484 of equipment recorded on the general ledger at November 30, 2006. In addition, tracking of sensitive non-capitalized property valued at \$500 to \$5,000 was not always performed. Lastly, home use permits were not always used and maintained on file. For example, home use permits were not on file for 4 of 20 laptops reviewed, and two of three departments reviewed were unable to provide evidence that home use permits were used.

FISCAL INFORMATION TECHNOLOGY [14]

Password controls for the human resources system were not set to effectively restrict access. In addition, computer room security procedures did not ensure that intrusion detection devices were consistently activated to detect unauthorized access during non-business hours.

RECONCILIATIONS [15]

Certain reconciliations were either not completed or not completed in a timely manner. A review of reconciliations in February 2007, disclosed that the campus was unable to provide evidence of when reconciliations were last performed for student accounts receivable, uncleared collections, and university extended education accounts receivable. Further, state university fee and property reconciliations were not always timely prepared or completed. Four of five state university fee reconciliations reviewed had been prepared between 2 and 14 months after their due dates. A review of property reconciliations for September 2006 through November 2006 disclosed that the September and October reconciliations were prepared 43 and 11 days late, respectively. This is a repeat finding from the prior FISMA audit.

INTRODUCTION

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2005/06 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2005, to December 31, 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 operating fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ Procedures for initiating, evaluating, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond March 9, 2007. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

The drop box at main cashiering was not well secured.

We found that the drop box receptacle consisted of a standard cabinet that was not lockable. As a result, the contents, which included checks, were accessible to all employees since it was located in the general cashiering office area.

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

SAM §20050 states that the elements of a satisfactory system of accounting and administrative control shall include, in part, a plan that limits access to state assets to authorized personnel who require these assets in the performance of assigned duties. Further, internal accounting controls comprise the methods and procedures directly associated with safeguarding assets.

The director of student financial services stated that a lock on the cabinet was not considered necessary since the main cashiering area was secure with restricted access to only authorized personnel. She further stated that a lock has now been installed with restricted key access controlled by the cashier supervisor.

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

Prior to the end of our fieldwork, the campus installed a lock at main cashiering.

ACCOUNTS RECEIVABLE

PARKING AND TRANSPORTATION

Contingent accounts receivable were not always recorded for parking and transportation (P&T), and collection activity provided by an external agency was not well controlled.

We found that:

- ▶ A parking citation general ledger control account total had not been established in campus accounting records. At December 2006, the unadjusted balance of outstanding parking citations totaled approximately \$527,003, which included \$301,521 in citation fees and \$225,482 in late, delinquent, and administrative fees.

- ▶ An external agency, the Phoenix Group, performed and maintained collections of parking citation revenue and reported collections and citation cancellations to P&T. However, P&T did not reconcile the Phoenix Group data to P&T data.

SAM §8776 states that an accounts receivable is defined as a claim against a person, firm, corporation, or other entity for money owed to the state.

SAM §8776.1 states that accounts receivable claims may be either contested or uncontested. Contested claims are those claims in which either the amount is in dispute or the validity of the claim is challenged or both. A contingent receivable will be established for those contested claims, which appear to have a prospect of favorable settlement or of becoming a valid receivable. Where the amount is contested, the amount to be recorded should be the potential due and payable. Generally, uncontested claims will be recognized as valid receivables. However, uncontested claims of a type which are subject to potential legal dispute and which have a history of legal disputes, will be recorded as contingent receivables until the statute of limitations have expired for objections to the claims.

SAM 8776.12 states that contingent receivables will be recognized in the accounts at the time the claim arises.

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

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

The P&T director stated that due to the nature of parking citation collections, revenue had always been recognized on a cash basis. He further stated that a formal process for reconciling Phoenix Group data to P&T data had not been established.

Inadequate control over parking citation receivables increases the risk that the receivables will not be properly reflected in campus accounting records, errors and irregularities will not be detected, and accountability will be compromised.

Recommendation 1

We recommend that the campus:

- a. Record outstanding parking citation accounts receivable in the campus accounting records.
- b. Reconcile the Phoenix Group data to the P&T detailed records and control total on a regular basis.

Campus Response

We concur. The campus will reconcile the Phoenix Group data to the P&T detailed records and control total on a regular basis and record a summary of outstanding parking citation accounts receivable in the campus accounting records by January 2008.

DELINQUENT ACCOUNTS

Pursuit of delinquent student, third-party (organizations/individuals paying tuition on the behalf of specific students), and payroll accounts receivables needed improvement. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Student and Third-Party

Our review of student and third-party accounts receivables as of December 31, 2006, and the related aging reports disclosed that:

- ▶ A significant portion of student receivables was aged. Student receivables totaled \$1,528,270, which included \$1,287,032 (84%) greater than 90 days old and \$902,407 (59%) greater than 180 days old.
- ▶ Adequate and timely collection activity had not been performed for 7 of 13 student receivables reviewed. Collection efforts consisted merely of reminder e-mails sent to student e-mail accounts.
- ▶ A significant portion of third-party receivables was aged. Third-party receivables totaled \$650,451, which included \$626,490 (96%) greater than 90 days old.
- ▶ Collection letters were not prepared for any of the 12 third-party receivables reviewed. Further, responsibility was not reverted to the student, which in turn prevented the submittal of balances to the Franchise Tax Board for tax offset.
- ▶ A cost benefit analysis had not been performed to determine what additional collection efforts should be made.

Payroll

Our review of 20 delinquent payroll accounts receivable as of November 31, 2006, and the related aging report disclosed that:

- ▶ In 16 instances, a sequence of three collection letters had not been sent in 30-day intervals. No letters were sent in 4 of the 16 instances. In five instances, letters were sent after one-year lapsed, while in six instances, letters were sent after 9 to 11 months had lapsed.

- ▶ In 12 instances, the individual was no longer an active employee of the campus.
- ▶ A significant portion of payroll receivables was aged. Payroll receivables totaled \$206,695, which included \$154,383 (75%) greater than 180 days old.

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. Further, SAM §8776.6 requires that each department develop collection procedures that will assure prompt follow-up on receivables and states that a sequence of three collection letters is to be sent. Further, if all reasonable collection procedures are unsuccessful, an analysis should be prepared to determine what additional collection efforts should be made.

State University Administrative Manual (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.

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.

Government Code (GC) §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.

The director of student financial services stated that vacancies in key positions within student financial services contributed to the lack of adequate collection effort. She further stated that collection procedures have now been implemented. The director of payroll stated that collection efforts were hindered by staffing issues, the merger between human resource services and payroll operations, and the implementation of PeopleSoft. She further stated that all accounts reviewed by the auditor were sent three collection letters, but not in 30-day intervals, as well as submitted to the Franchise Tax Board for tax offset.

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

Recommendation 2

We recommend that the campus strengthen procedures to ensure that documented collection efforts are promptly pursued for all delinquent student, third-party, and payroll accounts receivables.

Campus Response

We concur. The campus will strengthen procedures to ensure documented collection efforts are promptly pursued for all delinquent student, third-party, and payroll accounts receivables by December 2007.

CASH DISBURSEMENTS

Checks were not maintained in a locked and secure area prior to pickup for distribution.

We noted that printed checks in unsealed envelopes awaiting pickup were stored in an open mail slot, in an area that served as a copy/supply room and kitchen.

SAM §8041 states that agencies will keep check stock under strict control at all times.

GC §13401 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.

The director of accounts payable stated that the pickup location for the distribution of checks was always considered adequate.

Failure to safeguard checks increases the risk of fraud.

Recommendation 3

We recommend that the campus develop and implement procedures to adequately safeguard checks awaiting pickup.

Campus Response

We concur. The campus has developed and implemented procedures to adequately safeguard checks awaiting pickup.

PAYROLL AND PERSONNEL

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

Our review of 20 new hires from July 2005 through December 2006 disclosed that the Form I-9 was not completed within the required three days in four instances. Completion time ranged from 4 to 14 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 executive director of human resources stated that the four I-9 forms were not timely completed due to lack of coordination over the part-time faculty hiring process.

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

Recommendation 4

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

We concur. The campus will implement additional measures to ensure I-9 forms are completed within three business days of the date of employment by September 2007.

FIXED ASSETS

PHYSICAL INVENTORY

Administration of fixed assets did not ensure that property was properly accounted for, identified, and timely reconciled to campus accounting records.

We found that:

- ▶ A physical inventory of all property was not performed and reconciled to the general ledger. For the period 1995 to present, the campus was only able to provide documentation to support physical verification of capitalized fixed assets totaling about \$6,464,965 or 25% of the \$25,997,484 of equipment recorded on the general ledger at November 30, 2006. As a result of

the lack of a completed physical inventory, the accuracy of the fixed assets recorded to the general ledger and the related reconciliations were highly questionable.

- ▶ Tracking of sensitive non-capitalized property valued at \$500 to \$5,000 was not always performed.

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

SAM §8603 requires recordkeeping, identifying, and tagging of both capitalized and non-capitalized property.

The California State University, Fullerton *Fixed Assets Policy* requires fixed assets valued at or above \$5,000 and/or categorized as high-risk to be identified as university property and accounted for every three years. The policy further required developing and implementing monitoring and tracking systems as appropriate to ensure that departmental assets valued under \$5,000 and not classified as high-risk are appropriately safeguarded and controlled.

The assets manager stated that a complete physical inventory and tracking of sensitive non-capitalized property had not been performed due to staffing issues.

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

Recommendation 5

We recommend that the campus:

- a. Take immediate action to perform a physical inventory of all university property and reconcile the physical inventory with the accounting records.
- b. Establish procedures to ensure that physical inventories are performed at least once every three years.
- c. Properly track sensitive non-capitalized property valued at \$500 to \$5,000.

Campus Response

We concur. The campus has initiated immediate action to perform a physical inventory of all university property and reconcile the physical inventory with the accounting records. Procedures to ensure physical inventories are performed at least once every three years and proper tracking of sensitive non-capitalized property valued at \$500 to \$5,000 will be completed by December 2007.

HOME USE PERMITS

Home use permits were not always used and maintained on file.

Laptop computers were either purchased and distributed through the campus “roll-out” program administered by the information and technology department or by individual campus departments.

Our review disclosed that:

- ▶ Property custody receipts (home use permits) were not on file for 4 of 20 laptops reviewed that were distributed through the campus “roll-out” program from July 1, 2005, to December 31, 2006.
- ▶ Two of three departments reviewed with laptop purchases from July 1, 2005, to December 31, 2006, were unable to provide evidence that home use permits were used.

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

The assets manager stated that although the responsibility for issuing home use permits had been decentralized and assigned to the individual departments, some departments disregarded the responsibility.

Failure to utilize home use permits increases the risk of unauthorized use and loss of state property.

Recommendation 6

We recommend that the campus enforce adherence to procedures for utilization and maintenance of home use permits for off-campus use of university equipment.

Campus Response

We concur. The campus will adhere to procedures for utilization and maintenance of home use permits for off-campus use of university equipment effective immediately.

FISCAL INFORMATION TECHNOLOGY

PASSWORD CONTROLS

Password controls for the human resources system were not set to effectively restrict access.

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

The technical lead for the CMS project stated that the system was recently upgraded and that not all password controls had been reset. He further stated that the effects of password aging would require additional research.

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

Recommendation 7

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

Campus Response

We concur. All password controls are activated with the exception of password expiration. Since the majority of users log in to PeopleSoft via the portal using single sign-on, our Active Directory domain maintains password controls for 99 percent of the users, including password expiration. Password expiration, however, in PeopleSoft is turned off so that “system” type accounts do not expire unexpectedly and users do not fail to log in via the portal using single sign-on. We are currently exploring alternative solutions to activating password expirations in PeopleSoft for those accounts that bypass single sign-on authentication. The campus will implement a solution to adhere to this policy by April 2008.

DATA CENTER PHYSICAL SECURITY

Computer room security procedures did not ensure that intrusion detection devices were consistently activated to detect unauthorized access during non-business hours.

SAM §4842.2 requires each state agency to establish and maintain physical security measures that provide for management control of physical access to information assets. Physical security practices for each facility must be adequate to protect the most sensitive information technology application housed in that facility.

The director of information technology stated that the data center had previously been staffed 24 hours/7 days a week and not updating the procedures was an oversight.

Ineffective security controls over access to the data center could increase the risk of accidental or malicious damage or theft to equipment and data that is essential to the continued operation of the campus.

Recommendation 8

We recommend that the campus enhance its procedures to ensure that intrusion detection devices are consistently activated during non-business hours.

Campus Response

We concur. The campus intrusion detection system (motion detectors and door switches) was activated and placed into service with university police April 2007.

RECONCILIATIONS

Certain reconciliations were either not completed or not completed in a timely manner.

During our review of reconciliations in February 2007, we noted that:

- ▶ Student accounts receivable reconciliations were not performed. The campus was unable to provide evidence of the last completed student accounts receivable reconciliation. Student accounts receivable totaled \$1,528,270 at December 31, 2006.
- ▶ Uncleared collections accounts reconciliations were not performed. The campus was unable to provide evidence of the last completed reconciliation of uncleared collections. The uncleared collections balance as of December 31, 2006, totaled \$435,574. Although the campus was able to provide a general ledger transaction report that reflected automatic feeds to the account, the campus was unable to provide a listing of specific items and corresponding dates.
- ▶ Accounts receivable reconciliations were not performed at university extended education (UEE). The UEE was unable to provide evidence of the last completed accounts receivable reconciliation performed and could only provide an aging report as of June 30, 2006. The aging report showed a balance of \$134,987 of which \$92,103 (68%) was more than 180 days past due.
- ▶ State university fee reconciliations were not always timely prepared. Our review of state university fee reconciliations for the five semesters between summer 2005 and fall 2006, disclosed that in four instances, fee reconciliations were not prepared and/or approved within one month after the end of the academic term. The reconciliations were prepared between 2 and 14 months after their due dates.

- ▶ Property reconciliations were not timely completed. Our review of property reconciliations for September 2006 through November 2006 disclosed that the September and October reconciliations were prepared 43 and 11 days late, respectively. This is a repeat finding from the prior FISMA audit.

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

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

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

SUAM §3825.02 states that a reconciliation of state university fees to census date report relative to the number of students accounted on the census date shall be prepared for each academic term. The reconciliation shall be maintained on file by each campus. Although SUAM §3825.02 is silent as to the due date for reconciliation, SUAM §3825.01 states that application fee reconciliations should be completed one month after the end of the academic term being reconciled.

SAM §7924 requires that departments reconcile property at least quarterly or monthly, depending upon the volume of property transactions. Agencies will reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

The director of student financial services stated that during an extended period of key vacancies and employee turnover, student accounts receivable and the uncleared collections accounts were not reconciled and state university fee reconciliations were not timely prepared. She further stated that the state university fee reconciliations are now current and had been timely prepared for the past two semesters including spring 2007. The dean of UEE stated that lack of accounts receivable reconciliations was a result of staff turnover. The director of accounting services and financial reporting stated that conflicting priorities resulted in the fixed assets reconciliation not being performed timely for the two periods specified. She further stated that these were the only two instances during the 12-month period ending December 31, 2006, where the fixed assets reconciliation was not timely prepared.

Failure to complete or timely prepare accounts receivable, uncleared collections, state university fee, and property reconciliations limits the campus' ability to detect errors and irregularities and may delay proper revenue recognition.

Recommendation 9

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

Campus Response

We concur. The campus will strengthen procedures to ensure that reconciliations are completed in a timely manner by February 2008.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Milton A. Gordon	President
Hector Arguello	Budget Analyst, University Extended Education (UEE)
Welson Badal	Director of Administration and Finance, Information Technology
Antonieta Bartter	Student Support Services Manager, UEE
Dick Bednar	Director, Information Technology
Jan Burnham	Director, Student Financial Services
Connie Burns	Financial Reporting Coordinator
Amir Dabirian	Chief Information Officer
Juanita Daly	Staff, CalState TEACH
Vanessa Dang	Accounting Technician, UEE/Budget and Finance Department
Cynthia Davis	Assistant to the Dean, Secondary Education
Joe Ferrer	Director, Parking and Transportation
Rosamaria Gomez-Amaro	Director, Diversity and Equity Programs
Linda Gooding	Finance Budget Director, UEE
Donald Green	Director, Contracts and Procurement
Willie Hagan	Vice President of Administration
Glenda Hart	Director of Payroll
Bahram Hatefi	Director of Internal Audit
Terry Jarmon	Assets Manager, Physical Plant
Brian Jenkins	Associate Vice President, Finance
Denise Johnson	Director, Human Resources Operations
Susan Katchner	Director of Administrative Computing
Joseph Luzzi	Technical Lead, CMS Project
John Lynn	Executive Director of Human Resources
Mike Marcinkevicz	Director, Network Applications
Donny Miranda	Logistical Services, Manager
Harry Norman	Dean, UEE
Cecilia Patz	Director of Accounting Services and Financial Reporting
Carmen Peak	Procurement Operations Manager
Mai Pham	Accountant II
Michael Pruitt	Procurement Card Program Specialist
Hector Ramirez	Information and Technology Consultant
Gaye Rogers	Accountant II
Albert Sim	Supervisor of Student Accounts Receivable, Student Financial Services
Sarah Song	Account Representative, Budget Operations
Darlene Stevenson	Director, Housing and Residential Life
James Stroh	Property Coordinator, Physical Plant
Greg Sweet	Tax Compliance Manager
Maryann Torres	Associate Director, Payables
William Van der Pol	Director, Physical Plant
May Wong	Director, Accounts Payable
Steve Yim	Director, Internal Controls

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

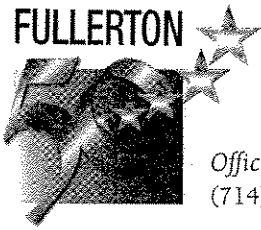
C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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

**CAL STATE
FULLERTON**



Office of the President
(714) 278-3456 / Fax (714) 278-2649

DATE: September 10, 2007
 TO: Larry Mandel
 University Auditor
 FROM: Milton A. Gordon
 President *MAG*
 SUBJECT: Response for FISMA Audit Report 06-12

RECEIVED
UNIVERSITY AUDITOR

SEP 11 2007

THE CALIFORNIA STATE
UNIVERSITY

I am pleased to forward California State University, Fullerton's official response to the recommendations in the FISMA Audit Report 06-12 dated August 13, 2007.

Once again, we would like to thank the University Auditor and his staff for conducting the audit in a professional manner and identifying meaningful ways to improve our financial controls and level of compliance with state and CSU guidelines.

The Campus Auditor, Bahram Hatefi, will also forward the responses to you electronically for your convenience. Should you have questions, please contact Bahram at 714-278-7669 or bhatefi@fullerton.edu

Attachment

cc: Willie J. Hagan, Vice President for Finance and Administration
 Amir Dabirian, Chief Information Technology Officer
 Bahram Hatefi, Internal Auditor
 Bill Barrett, Associate Vice President Administration
 Brian Jenkins, Associate Vice President of finance
 Sandra Sobel, Interim Executive Assistant to Chief Information
 Technology Officer
 Naomi Goodwin, Assistant Vice President

FISMA

**CALIFORNIA STATE UNIVERSITY,
FULLERTON**

**Audit Report 06-12
August 13, 2007**

ACCOUNTS RECEIVABLE

PARKING AND TRANSPORTATION

Recommendation 1

We recommend that the campus:

- a. Record outstanding parking citation accounts receivable in the campus accounting records.
- b. Reconcile the Phoenix Group data to the P&T detailed records and control total on a regular basis.

Campus Response

We concur. The campus will reconcile the Phoenix Group data to the P&T detailed records and control total on a regular basis and record a summary of outstanding parking citation accounts receivable in the campus accounting records by January 2008.

DELINQUENT ACCOUNTS

Recommendation 2

We recommend that the campus strengthen procedures to ensure that documented collection efforts are promptly pursued for all delinquent student, third-party, and payroll accounts receivables.

Campus Response

We concur. The campus will strengthen procedures to ensure documented collection efforts are promptly pursued for all delinquent student, third-party, and payroll accounts receivables by December 2007.

CASH DISBURSEMENTS

Recommendation 3

We recommend that the campus develop and implement procedures to adequately safeguard checks awaiting pickup.

Campus Response

We concur. The campus has developed and implemented procedures to adequately safeguard checks awaiting pick up.

PAYROLL AND PERSONNEL

Recommendation 4

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

We concur. The campus will implement additional measures to ensure I-9 forms are completed within three business days of the date of employment by September 2007.

FIXED ASSETS

PHYSICAL INVENTORY

Recommendation 5

We recommend that the campus:

- a. Take immediate action to perform a physical inventory of all university property and reconcile the physical inventory with the accounting records.
- b. Establish procedures to ensure that physical inventories are performed at least once every three years.
- c. Properly track sensitive non-capitalized property valued at \$500 to \$5,000.

Campus Response

We concur. The campus has initiated immediate action to perform a physical inventory of all university property and reconcile the physical inventory with the accounting records. Procedures to ensure physical inventories are performed at least once every three years and proper tracking of sensitive non-capitalized property valued at \$500 to \$5,000 will be completed by December 2007.

HOME USE PERMITS

Recommendation 6

We recommend that the campus enforce adherence to procedures for utilization and maintenance of home use permits for off-campus use of university equipment.

Campus Response

We concur. The campus will adhere to procedures for utilization and maintenance of home use permits for off-campus use of university equipment effective immediately.

FISCAL INFORMATION TECHNOLOGY

PASSWORD CONTROLS

Recommendation 7

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

Campus Response

We concur. All password controls are activated with the exception of password expiration. Since the majority of users login to PeopleSoft via the portal using single-signon, our AD domain maintains password controls for 99% of the users, including password expiration. Password expiration, however, in PeopleSoft is turned off so that "system" type accounts do not expire unexpectedly and users do not fail to login via the portal using single-signon. We are currently exploring alternative solutions to activating password expirations in PeopleSoft for those accounts that bypass single-signon authentication. The campus will implement a solution to adhere to this policy by April 2008.

DATA CENTER PHYSICAL SECURITY

Recommendation 8

We recommend that the campus enhance its procedures to ensure that intrusion detection devices are consistently activated during non-business hours.

Campus Response

We concur. The campus intrusion detection system (motion detectors and door switches) was activated and placed into service with University Police April 2007.

RECONCILIATIONS

Recommendation 9

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

Campus Response

We concur. The campus will strengthen procedures to ensure that reconciliations are completed in a timely manner by February 2008.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 25, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

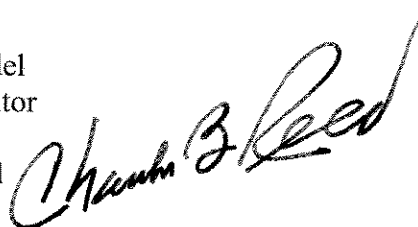
DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor


LONG BEACH

SUBJECT: Draft Final Report 06-12 on *FISMA*,
California State University, Fullerton

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of September 25, 2007, I accept the response as submitted with the draft final report on *FISMA*, California State University, Fullerton.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Milton A. Gordon, President
Dr. Bahram Hatefi, Director of Internal Audit

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS