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ABBREVIATIONS

CSU  California State University
CSUF  California State University Fresno
CGE  Continuing and Global Education
FISMA  Financial Integrity and State Manager’s Accountability Act
GC  Government Code
HR  Human Resources
SAM  State Administrative Manual
EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager’s Accountability Act (FISMA) of 1983, Government Code (GC) Sections 13400 through 13407. This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors) as required by GC Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

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

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

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of reliable financial statements.
- Established controls are not only effective but also promote operational efficiency.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.

We visited the CSUF campus from October 12, 2009, through December 4, 2009, and made a study and evaluation of the accounting and administrative control in effect as of December 4, 2009. 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, payroll, purchasing, and property. Three of the six findings were repeats from prior audits, and one of the three, regarding trust funds, was also included in the October 2005 FISMA audit. A related finding, regarding the lack of a cost allocation plan to bill campus auxiliaries, was also noted in the April 2007 Contracts and Grants audit. 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 December 4, 2009, 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 [7]**

The Continuing and Global Education Center stored checks and credit card receipts in an unsecured area.

**ACCOUNTS RECEIVABLE [7]**

The campus lacked a current cost allocation plan. This is a repeat finding from the prior FISMA audit.

**CASH DISBURSEMENTS [8]**

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. This is a repeat finding from the prior FISMA audit.

**PAYROLL [9]**

The payroll office lacked an approved formal policy to ensure that payments and salary transactions comply with systemwide standards.

**PROPERTY [10]**

The campus did not properly complete property survey reports.

**TRUSTS [11]**

Some trust fund projects had negative cash and/or fund balances. This is a repeat finding from the last three FISMA audits.
INTRODUCTION

STATEMENT OF INTERNAL CONTROLS

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

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

1. Internal Accounting Controls

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

2. Operational Controls

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

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

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

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

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

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

PURPOSE

The principal audit objectives were to assess the adequacy of the systems of internal accounting and administrative control and to determine whether financial operations were conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor. Specifically, we sought assurances that:

- Legal and regulatory requirements are complied with.
- Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- Assets are adequately safeguarded from loss, damage, or misappropriation.
- Duties are appropriately segregated consistent with appropriate control objectives.
- Transactions, systems output, or accounting entries are reviewed and approved.
- Management does not intentionally override internal controls to the detriment of control objectives.
- Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.
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 2008/09 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was January 2009 to September 2009. Our primary focus was on internal controls.

A preliminary survey of the campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the campus. Our assessment of risk was based upon a systematic process using management’s feedback and professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- Use of petty cash funds, periodic cash counts, and the administration and reconciliation of bank accounts.
- Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- Adequate segregation of duties regarding authorization and payment of cash disbursements and appropriate controls over campus vendors.
- Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller’s balances.
- Authorization and proper classification of personnel/payroll transactions and/or accumulation of leave credits in compliance with state policies.
- Posting of the property ledger, monthly reconciliation of the property to the general ledger, physical inventories, and authorization of property disposals.
- Access restrictions to accounting systems and related computer facilities/equipment, and administration of information technology operations.
 Establishment of trust funds, separate accounting, and adequate agreements.

We have not performed any auditing procedures beyond December 4, 2009. 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

Cash control weaknesses were found at the Continuing and Global Education Center (CGE).

We found that CGE stored checks and credit card receipts in a basket in an unsecured area until processed.

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.

The cashiering supervisor stated that each satellite cashiering area receives cash safeguarding training and that this was an oversight.

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

**Recommendation 1**

We recommend that the CGE store receipts in a secured area until they are processed.

**Campus Response**

We concur with the recommendation. The Division of Continuing and Global Education reviewed its practice with personnel immediately after this recommendation was brought to our attention and changed its procedures to ensure that cash receipts are properly safeguarded. Receipts are now kept out of sight, locked in a file cabinet during the day. Each evening any receipts that have not been processed are moved to a safe for additional security.

ACCOUNTS RECEIVABLE

The campus lacked a current cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations. This is a repeat finding from the prior Financial Integrity and State Manager’s Accountability Act (FISMA) audit.

Executive Order 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, requires that an annual written cost allocation plan is prepared to ensure that auxiliary enterprises are charged for allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the General Fund.

The university controller stated that he was unable to provide a reason why the cost allocation plan was not completed.
The absence of an approved cost allocation plan increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

**Recommendation 2**

We recommend that the campus update its cost allocation plan annually, in advance of each fiscal year.

**Campus Response**

We concur with the recommendation. We agree to complete cost allocation plans annually in advance of the fiscal year. The deadline for completing this plan for 2009/10 and 2010/11 is June 16, 2010.

**CASH DISBURSEMENTS**

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. This is a repeat finding from the prior FISMA audit.

We noted that the accounts payable manager had the ability to process payments, override match exceptions, as well as add/update the vendor master file within PeopleSoft. In addition, three accounts payable technicians had the ability to update vendor information.

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

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

The university controller stated that the accounts payable manager had been given vendor update access to perform update functions. The accounts payable manager stated that the technician’s ability to update vendors had been removed; however, the security information list had not been updated.

Failure to maintain adequate control over the vendor master file increases the risk of fraudulently misdirected payments.
Recommendation 3

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

Campus Response

We concur with the recommendation. All vendor create and maintain functions have been removed for individuals who process payments.

PAYROLL

The payroll office did not have an approved formal policy to ensure that payments and salary transactions comply with systemwide standards.

California State University Directive Human Resources (HR) 2008-09, Salary and Payroll Processing – Campus Requirements, dated July 11, 2008, states that campus salary and payroll procedures/processes must, at a minimum, identify the steps in the process; indicate the audit checkpoints and corrective action requirements if checkpoint(s) are not approved across affected departments; and identify the “approving authority,” which will include position title(s) across affected departments who are responsible for approving documentation submitted at a given checkpoint in the process (including the final checkpoint before the transaction and/or payment request is keyed). It also states that campuses must obtain presidential approval of their salary and payroll processes, and that these processes must be reviewed and updated by the campuses on a routine basis (at least annually) to reflect current requirements, ensure compliance, and optimize efficiencies.

The payroll manager stated that the campus lacked formal policies due to staffing changes at the time the policy directive was issued.

Inadequate payment and salary transaction procedures increase the likelihood of improper coding of payments and salary transactions, which may cause the campus to fail to fully comply with systemwide standards.

Recommendation 4

We recommend that the campus establish and implement an approved formal policy that meets systemwide standards for salary and payroll processing.

Campus Response

We concur with the recommendation. Payroll services will create and implement the necessary procedures/processes to comply with Technical Letter 2008-09 and meet systemwide standards by September 1, 2010, and will seek approval by the president.
PROPERTY

Property survey reports were not properly completed for the disposition of property.

Our review of ten items from the disposed asset listing as of June 30, 2009, disclosed the following:

- In six instances, the property survey report did not contain all items listed on the survey request forms.
- In five instances, the property survey report did not contain required information such as original cost, disposal method, and disposal date.
- Survey reports were not properly authorized. In two instances, the survey report was not signed by an authorized survey board member. In seven instances, the survey report was not authorized until after disposal of property.
- Property dispositions were not properly recorded. In six instances, the survey report did not include the price received and receipt number for items sold. In six instances, the survey report did not include the signature and title of the person supervising the disposal.

SAM §3520.2 states that the property survey board is responsible for determining that when disposing of surplus property, the decision to do so serves the best interest of the state. To the extent possible, there will be a sufficient number of members on the board to insure representation by both business management and program responsibilities. At least two board members must approve all Property Survey Reports (STD. 152) and all Transfers of Location of Equipment (STD. 158).

SAM §3520.3 states that the agency retains the original copy of the approved STD. 152 or STD. 158, as applicable, in a suspense file, pending final disposition of the property. If the agency sells the property, the agency enters the dollar amount received from the sale and the receipt number on STD. 152 and disposes of the listed property without delay.

SAM §3520.9 states that when an agency disposes of state-owned surplus personal property by means other than the sale of the property (i.e., salvaged, scrapped, discarded, or hauled to landfill), the agency's responsible employee and unit supervisor shall certify in writing that the disposition has been accomplished. The certification may be made on the Property Survey Report form, STD. 152, or attached and filed with the form.

The director of procurement and support services stated that inadequate completion of survey reports was due to oversight and lack of staff. He also stated that the campus procedure allowed the property clerk to obtain survey board approval after property disposition.

Insufficient control over property dispositions increases the risk of inappropriate activities and reduces accountability over state property.
**Recommendation 5**

We recommend that the campus:

a. Ensure property survey reports include all items listed on survey request forms.

b. Ensure property survey reports include required information such as original cost, disposal method, and disposal date.

c. Require survey reports to be authorized by the survey board members before property is disposed.

d. Ensure property survey reports include a certification of property disposition.

**Campus Response**

We concur. Effective May 13, 2010, the campus will implement the following responses and ensure correct use of forms and that they are filled out properly.

a. The campus property clerk will ensure that property survey reports include all pertinent information.

b. The campus property clerk will continue the use of the property survey report as required.

c. The property survey board has empowered the property clerk to make decisions on proper disposal method. The first option is to always sell the surplus property in a public auction unless the surplus property has no value or is not useable. The property survey board will review and approve all disposals by the property clerk, and they will all be listed on the property survey report.

d. The campus property clerk and supervisor will certify that property was disposed of properly.

**TRUSTS**

Some trust fund projects had negative cash and/or fund balances. This is a repeat finding from the last three FISMA audits.

Our review of trust fund balances as of June 30, 2009, disclosed that 7 of the 232 total trust funds had negative balances totaling $270,444.

State University Administrative Manual §3710.01 requires each trust project to maintain a positive cash and fund balance.

The general accounting manager stated that general accounting inadvertently missed clearing the negative fund balances at year-end.
Failure to maintain positive cash balances in trust projects increases the risk of monetary loss and lack of funds for trust disbursements.

**Recommendation 6**

We recommend that the campus strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances.

**Campus Response**

We concur with the recommendation. The campus agrees to strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances. These procedures were started on May 26, 2010.
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>John D. Welty</td>
<td>President</td>
</tr>
<tr>
<td>Monica Acosta</td>
<td>Extension Programs Registrar</td>
</tr>
<tr>
<td>Josie Almeida</td>
<td>Manager, Student Financial Services</td>
</tr>
<tr>
<td>Brian Cotham</td>
<td>Director of Procurement and Support Services</td>
</tr>
<tr>
<td>Lisa Garcia</td>
<td>Administrative Assistant, Traffic Operations</td>
</tr>
<tr>
<td>Judith Gillette</td>
<td>Administrative Coordinator, Procurement and Support Services</td>
</tr>
<tr>
<td>Gary Hensley</td>
<td>Applications Security Administrator, Campus Information Systems</td>
</tr>
<tr>
<td>Ramiro Jimenez</td>
<td>Property Clerk</td>
</tr>
<tr>
<td>Charlene Julius</td>
<td>Administrative Assistant, University Scholarships</td>
</tr>
<tr>
<td>Ayesha Khan</td>
<td>Financial Reporting Technician</td>
</tr>
<tr>
<td>John Klein</td>
<td>Manager, Student Accounts</td>
</tr>
<tr>
<td>Clinton Moffitt</td>
<td>Associate Vice President for Financial Services</td>
</tr>
<tr>
<td>Shailesh Rana</td>
<td>Business Development Specialist</td>
</tr>
<tr>
<td>Chris Robinson</td>
<td>University Controller</td>
</tr>
<tr>
<td>Monica Shackleton</td>
<td>Manager, Accounts Payable</td>
</tr>
<tr>
<td>Linda Simmons</td>
<td>General Accounting Manager</td>
</tr>
<tr>
<td>Shirley Staton</td>
<td>Accounting Technician II</td>
</tr>
<tr>
<td>Gina Tamez</td>
<td>Cashiering Supervisor</td>
</tr>
<tr>
<td>Cynthia Teniente-Matson</td>
<td>Vice President, Administration/Chief Financial Officer</td>
</tr>
<tr>
<td>Greg Varela</td>
<td>Administrative Analyst, University Scholarships</td>
</tr>
<tr>
<td>Linda Vivian</td>
<td>Accounting Technician III</td>
</tr>
<tr>
<td>Eleanor Woods</td>
<td>Payroll Manager</td>
</tr>
<tr>
<td>Robert Wright</td>
<td>Receiving Supervisor</td>
</tr>
</tbody>
</table>
June 3, 2010

Memorandum

To: Larry Mandel  
University Auditor  
Office of the Chancellor

From: Cynthia Teniente-Matson  
Vice-President for Administration and  
Chief Financial Officer

Subject: Revised Responses to FISMA Audit Report #09-05

Attached are the University’s responses to the draft FISMA Audit Report #09-05. These responses include additional clarification on Recommendations 2, 4, 5c, and 6. Please let me know if you have any additional questions. Thank you.

Attachment

c: Dr. John D. Welty  
Mr. Clint Moffitt  
Michelle Schlack  
Mr. Chris Robinson
FISMA
CALIFORNIA STATE UNIVERSITY, FRESNO
Audit Report 09-05

CASH RECEIPTS

Recommendation 1

We recommend that the CGE store receipts in a secured area until they are processed.

Campus Response

We concur with the recommendation. The Division of Continuing and Global Education reviewed its practice with personnel immediately after this recommendation was brought to our attention and changed its procedures to ensure that cash receipts are properly safeguarded. Receipts are now kept out of sight, locked in a file cabinet during the day. Each evening any receipts that have not been processed are moved to a safe for additional security.

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus update its cost allocation plan annually, in advance of each fiscal year.

Campus Response

We concur with the recommendation. We agree to complete cost allocation plans annually in advance of the fiscal year. The deadline for completing this plan in 09/10 and 10/11 is June 16, 2010.

CASH DISBURSEMENTS

Recommendation 3

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

We concur with the recommendation. All vendor create and maintain functions have been removed for individuals who process payments.

PAYROLL

Recommendation 4

We recommend that the campus establish and implement an approved formal policy that meets systemwide standards for salary and payroll processing.

Campus Response

We concur with the recommendation. Payroll Services will create and implement the necessary procedures/processes to comply with Technical Letter 2008-09 and meet systemwide standards by September 1, 2010 and will seek approval by the President.

PROPERTY

Recommendation 5

We recommend that the campus:

a. Ensure property survey reports include all items listed on survey request forms.

b. Ensure property survey reports include required information such as original cost, disposal method, and disposal date.

c. Require survey reports to be authorized by the survey board members before property is disposed.

d. Ensure property survey reports include a certification of property disposition.

Campus Response

We concur. Effective May 13, 2010, the campus will implement the following responses and ensure correct use of forms and that they are filled out properly.

a. Campus Property Clerk will ensure that property survey reports include all pertinent information.

b. Campus Property Clerk will continue the use the property survey report as required.

c. The Property Survey Board has empowered the Property Clerk to make decisions on proper disposal method. The first option is to always sell the surplus property in a public auction unless the surplus property has no value or is not useable. The Property Survey Board will review and approve all disposals by the Property Clerk and they will all be listed on the property survey report.
d. Campus Property Clerk and Supervisor will certify that property was disposed of properly.

TRUSTS

Recommendation 6

We recommend that the campus strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances.

Campus Response

We concur with the recommendation. Campus agrees to strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances. These procedures were started on May 26, 2010.
July 2, 2010

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Charles B. Reed
       Chancellor

SUBJECT: Draft Final Report 09-05 on FISMA,
         California State University, Fresno

In response to your memorandum of July 2, 2010, I accept the response as
submitted with the draft final report on FISMA, California State University,
Fresno.

CBR/amd