

FISMA
CALIFORNIA STATE UNIVERSITY,
FULLERTON

Report Number 04-09
July 26, 2005

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ABBREVIATIONS

CSU	California State University
CFO	Chief Financial Officer
CMS	Common Management Systems
CSUF	California State University, Fullerton
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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 (SAM), Education Code, Title 5, and Trustee policy.

We visited the CSUF campus from November 29, 2004, through January 27, 2005, and made a study and evaluation of the accounting and administrative control in effect as of January 27, 2005. 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 and personnel, fixed assets, fiscal information technology, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, CSUF's accounting and administrative control in effect as of January 27, 2005, 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]

A small portable safe in the housing and residence life office was not anchored to the building, and the extended education cashier's office did not maintain inventory control over press-numbered receipts.

ACCOUNTS RECEIVABLE [6]

Delinquent accounts receivable were not adequately pursued to ensure timely collection. Collection letters were not sent in 30-day intervals to 17 of the 20 delinquent student accounts receivables reviewed, and collection activity for 12 of 15 employees reviewed with payroll receivables was untimely, inconsistent, or not conducted.

PAYROLL AND PERSONNEL [7]

Federal Form I-9, Employment Eligibility Verification, was not always obtained, specifically for 5 of 15 newly hired employees reviewed.

FIXED ASSETS [7]

Property acquisitions were not always recorded into the financial records in a timely manner. Eight of the fifteen property acquisitions reviewed were recorded into the general ledger between 4 and 13 months after receipt. In addition, property reconciliations were not completed on a monthly basis. The reconciliations for July 2004 through September 2004 were prepared between 53 and 83 days after the required completion due date.

FISCAL INFORMATION TECHNOLOGY [9]

Password controls for an application did not satisfy all of the recommended security guidelines.

TRUST FUNDS [9]

Trust fund expenditures were not always properly approved. A review of 20 trust fund expenditures disclosed that three 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 (SUAM) 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 2003/04 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 2004 to January 2005. 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 January 27, 2005. 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 two of the three satellite cashiering areas visited.

The satellite cashiering locations reviewed included the payment processing center, housing and residence life, and the extended education office.

Housing and Residence Life

The department's small portable safe was located in a rear room on a table and had not been anchored to the building.

State Administrative Manual (SAM) §8025 states that, as a deterrent to burglary, state agencies will securely anchor a safe to the building and, where practical, to the building's foundation.

The director of housing and residence life stated that she was unaware that the safe needed to be anchored.

Extended Education

The extended education cashier's office stored and issued press-numbered receipts in the event that the cashiering system was not functioning. However, we noted that inventory control was not maintained over the press-numbered receipts.

SAM §8020 requires an inventory control for press-numbered receipts.

The student support services manager stated that she was unaware that an inventory control log should be maintained for press-numbered receipts.

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

Recommendation 1

We recommend that the campus:

- a. Securely anchor the housing and residence life safe.
- b. Develop and implement inventory control for press-numbered receipts at extended education.

Campus Response

We concur.

- a. The safe has been anchored.
- b. An online system to track receipts has been implemented.

ACCOUNTS RECEIVABLE

Delinquent accounts receivable were not adequately pursued to ensure timely collection.

Our review disclosed that:

- ▶ Collection letters were not sent in 30-day intervals to 17 of the 20 delinquent student accounts receivables reviewed.
- ▶ Collection activity for 12 of 15 employees reviewed with payroll receivables dated between February 1998 and June 2004 was untimely, inconsistent, or not conducted.

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.

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 §8776.7 provides collection procedures to be employed in the collection of amounts due from employees.

The then current chief financial officer (CFO) stated that 60- and 90-day letters were not prepared due to a required system programming change that was in progress; however, alternative follow-up collection activity occurred for past-due accounts. She also stated that there was a period of time when the payroll staff was unable to complete the full volume of accounts receivable activity due to staff and management vacancies.

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

Recommendation 2

We recommend that the campus ensure that accounts receivable are promptly pursued for collection.

Campus Response

We concur. Student financial services collection letters have now been automated and payroll services has a dedicated analyst to work on and resolve payroll receivables.

PAYROLL AND PERSONNEL

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

Our review of 15 new hires from July 2003 through June 2004 disclosed that the campus did not obtain federal Form I-9, Employment Eligibility Verification, for five newly hired employees.

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 I-9s were not obtained for the five individuals because they were rehired long-term employees that were previously exempt and there was a lack of continuous refresher training for employees responsible for hiring paperwork.

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

Recommendation 3

We recommend that the campus strengthen procedures to ensure that federal Form I-9, Employment Eligibility Verification, is obtained from all newly hired employees.

Campus Response

We concur. The campus now utilizes the CMS system to track I-9 completion. In addition, human resources has created a database to assist hiring departments and human resources in collecting I-9s when lecturers are rehired each semester.

FIXED ASSETS

PROPERTY ACCOUNTING

Property acquisitions were not always recorded into the financial records in a timely manner.

Our review of 15 property acquisitions between March 2003 and June 2004 disclosed that in eight instances, property was recorded into the general ledger between 4 and 13 months after receipt.

SAM §8650 requires departments to record specific property information when property is acquired. In addition, departments will keep track of state property, whether capitalized or not, in an automated property accounting system.

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

The then current CFO stated that recording into the financial records was delayed due to staff vacancies in the accounting office.

Untimely recording of fixed asset acquisitions increases the risk of misstated property records and theft or loss of state property.

Recommendation 4

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded in a timely manner.

Campus Response

We concur. A new general accounting staff member has been hired and is dedicated to analyzing and recording fixed asset accounting transactions and related reconciliations. All capitalization entries and reconciliations to the property/inventory records are current.

PROPERTY RECONCILIATIONS

Property reconciliations were not completed on a monthly basis.

During our review of property reconciliations, we noted that the reconciliations for July 2004 through September 2004 were prepared from 53 to 83 days after the required completion due date.

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

The then current CFO stated that property reconciliations were delayed due to staff vacancies in the accounting office.

Failure to prepare reconciliations in a timely manner compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 5

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

Campus Response

We concur. A new general accounting staff member has been hired and is dedicated to analyzing and recording fixed asset accounting transactions and related reconciliations. All capitalization entries and reconciliations to the property/inventory records are current.

FISCAL INFORMATION TECHNOLOGY

Password controls for an application did not satisfy all of the recommended security guidelines.

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

The director of administrative computing stated that this system was developed locally and that some password controls had not been included in the initial design.

Lack of comprehensive password controls could lead to unauthorized or inappropriate access.

Recommendation 6

We recommend that the campus amend their password controls for that application to ensure appropriate security of campus data.

Campus Response

We concur. New password controls were put into effect on August 1, 2005.

TRUST FUNDS

Trust fund expenditures were not always properly approved.

Our review of 20 trust fund expenditures disclosed that three 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 then current CFO stated that in one instance proper procedures were not followed; however, the expenditure was appropriately charged to the trust account and did have the endorsement of the account holder. She further stated that in the other two instances, the expenditures were through a procurement card that was linked to the trust account with the approval of the trust manager;

however, the procurement card approving official was not the authorized signatory of the trust account. She added that this was a unique situation and the parties involved did not recognize the need to have the authorized signatory of the trust account sign the procurement card statement.

Failure to obtain proper authorization for trust fund 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. The accounting services department will provide a list of trust accounts and authorized signers to accounts payable and contracts and procurement by September 1, 2005. In addition, a reminder notice regarding authorized signatures on trust accounts was included in an annual procurement card review/training and will be posted on the web.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Milton A. Gordon	President
Elahe Amani	Director, Student Financial Services
Toni Barter	Student Support Services Manager, Extended Education
Dick Bednar	Senior Director of Information Systems
Amir Dabirian	Acting Chief Information Officer
Linda Godding	Director, Business and Finance, Extended Education
Naomi Goodwin	Assistant Vice President, Administration
Willie Hagan	Vice President of Administration
Glenda Hart	Associate Director of Payroll
Jannel Hope	Financial Analyst, Extended Education
Terry Jarmon	Assets Manager
Susan Katchner	Director of Administrative Computing
Mark Lopez	Interim Senior Director of Financial Management
John Lynn	Executive Director of Human Resources
Sherri Newcomb	Chief Financial Officer (At time of review)
Robert Palmer	Vice President, Student Affairs
Michael Parker	Chief Information Officer (At time of review)
Cecilia Patz	Director of Accounting Services and Financial Reporting
Cheryl Perrira	Interim Senior Director, Financial Operations
Ephraim Smith	Vice President for Academic Affairs
Darlene Stevenson	Director, Housing and Residence Life
Maryann Torres	Associate Director, Payables
Irma Torres-Garcia	CashNet Manager
Alexander Tzoumas	Director of Internal Audit (At time of review)
William Van der Pol	Director of Physical Plant
Karen Wall	Assistant Vice President, Student Affairs
May Wong	Director, Payroll and Payables

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.



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



DATE: August 23, 2005
TO: Larry Mandel
University Auditor
FROM: Milton A. Gordon
President *MA*
SUBJECT: Campus Response to Recommendations of Audit Report Number 04-09,
FISMA at California State University, Fullerton

Thank you for the audit report of your office's review of Financial Integrity and State Manager's Accountability Act (FISMA) requirements at California State University, Fullerton.

Appropriate University administrative officers have reviewed the subject report. Our specific comments and planned corrective actions concerning the audit recommendations are attached.

Please contact Vice President Willie Hagan if you have questions or concerns.

Attachment

cc: Willie Hagan, Vice President, Administration & Finance/CFO
Ephraim Smith, Vice President, Academic Affairs
Robert Palmer, Vice President, Student Affairs
Amir Dabirian, Chief Information Technology Officer
Brian Jenkins, Associate Vice President, Finance
Naomi Goodwin, Assistant Vice President, Administration & Finance
John Lynn, Executive Director, Human Resources

FISMA

**CALIFORNIA STATE UNIVERSITY,
FULLERTON**

**REPORT NUMBER 04-09
JULY 26, 2005**

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Securely anchor the housing and residence life safe.
- b. Develop and implement inventory control for press-numbered receipts at extended education.

Campus Response

We concur.

- a. The safe has been anchored.
- b. An on-line system to track receipts has been implemented.

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus ensure that accounts receivable are promptly pursued for collection.

Campus Response

We concur. Student Financial Services collection letters have now been automated and Payroll Services has a dedicated analyst to work on and resolve payroll receivables.

PAYROLL AND PERSONNEL

Recommendation 3

We recommend that the campus strengthen procedures to ensure that federal Form I-9, Employment Eligibility Verification, is obtained from all newly hired employees.

Campus Response

We concur. The campus now utilizes the CMS system to track I-9 completion. In addition, Human Resources has created a database to assist hiring departments and Human Resources in collecting I-9s when lecturers are rehired each semester.

FIXED ASSETS

PROPERTY ACCOUNTING

Recommendation 4

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded in a timely manner.

Campus Response

We concur. A new general accounting staff member has been hired and is dedicated to analyzing and recording fixed asset accounting transactions and related reconciliations. All capitalization entries and reconciliations to the property/inventory records are current.

PROPERTY RECONCILIATIONS

Recommendation 5

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

Campus Response

We concur. A new general accounting staff member has been hired and is dedicated to analyzing and recording fixed asset accounting transactions and related reconciliations. All capitalization entries and reconciliations to the property/inventory records are current.

FISCAL INFORMATION TECHNOLOGY

Recommendation 6

We recommend that the campus amend their password controls for that application to ensure appropriate security of campus data.

Campus Response

We concur. New password controls were put into effect on August 1, 2005.

TRUST FUNDS

Recommendation 7

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

Campus Response

We concur. The Accounting Services department will provide a list of trust accounts and authorized signers to Accounts Payable and Contracts and Procurement by September 1, 2005. In addition, a reminder notice regarding authorized signatures on trust accounts was included in an annual procurement card review/training and will be posted on the web.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 6, 2005

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

MEMORANDUM


EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 04-09 on *FISMA*,
California State University, Fullerton

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of September 6, 2005, 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

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS