

FISMA
CALIFORNIA STATE UNIVERSITY,
CHICO

Audit Report 08-03
August 19, 2008

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ABBREVIATIONS

CFO	Chief Financial Officer
CSU	California State University
CSUC	California State University, Chico
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
HR	Human Resources
PBR	Payroll/Benefits Representative
PMO	Property Management Office
RCE	Regional Continuing Education
SAM	State Administrative Manual
SRO	Student Records and Registration Office

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, Chico (CSUC) 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 CSUC campus from March 3, 2008, through May 2, 2008, and made a study and evaluation of the accounting and administrative control in effect as of May 2, 2008. This report represents our biennial review.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report.

In our opinion, CSUC's accounting and administrative control in effect as of May 2, 2008, 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 [8]

Press-numbered receipts were not used at main cashiering when the cashiering system was inoperable and an inventory control system was not in place for the press-numbered receipts issued to satellite cashiering locations. In addition, an inventory control system of press-numbered receipts neither was in place at the student records and registration office nor was the supply maintained in a secured location. Also, the lead cashier at regional continuing education did not maintain a prelisting of incoming mail that contained negotiable instruments payable to other entities or campus departments, and checks and credit card receipts collected during off-site events were neither endorsed on the day of receipt nor transported to the campus in a locked container.

ACCOUNTS RECEIVABLE [11]

The campus indirect cost allocation plan, including the methodology used to distribute costs of the facilities, goods, or services, was not reviewed and approved by the chief financial officer.

PURCHASING [12]

A review of 20 procurement card statements for ten employees dated between October 2007 and November 2007 disclosed that eight monthly statement reconciliations were forwarded to accounts payable between 22 and 37 days after the due date established by campus procurement card policies.

OPERATING FUND [13]

A review of 15 travel advances issued between January 2006 and December 2007 disclosed that in five instances, advances to current employees were outstanding between 78 and 90 days and in three instances, travel advances were issued to the athletics department more than 30 calendar days of the anticipated travel and included six months of pending travel at various times during the semester.

PAYROLL AND PERSONNEL [14]

Federal Form I-9, Employment Eligibility Verification, was not always obtained or timely completed. This is a repeat finding from the prior FISMA audit. Separation clearance forms were not always completed. This is also a repeat finding from the prior FISMA audit.

FIXED ASSETS [16]

Home use permits were not always completed and approved for off-campus use of university computers. In addition, campus departments disposed of equipment prior to obtaining the approval of the property survey board approval.

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.

- ▶ 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 bear 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 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 2006/07 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 2006 to December 2007. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ 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.

INTRODUCTION

We have not performed any auditing procedures beyond May 2, 2008. 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 main cashier's office and two of three satellite cashiering areas visited.

The satellite cashiering locations reviewed included the student records and registration office (SRO), regional continuing education (RCE), and student health services.

Main Cashier's Office

Press-numbered receipts were not used when the cashiering system was inoperable and an inventory control system was not in place for the press-numbered receipts issued to satellite cashiering locations.

State Administrative Manual (SAM) §8020 states that all receipts, except transfer receipts, will be press-numbered, and that an inventory control will be kept for press-numbered receipts.

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 director of student financial services stated that the university was unaware of the SAM requirement to utilize, inventory, and control separate press-numbered receipts when such items were not available through the cashiering system.

Student Records and Registration Office

An inventory control system of press-numbered receipts neither was in place nor was the supply maintained in a secured location.

SAM §8020 states that all receipts, except transfer receipts, will be press-numbered, and that an inventory control will be kept for press-numbered receipts.

The director of student financial services stated that the university was unaware of the SAM requirement to utilize, inventory, and control separate press-numbered receipts when such items were not available through the cashiering system.

Regional Continuing Education

We noted that:

- ▶ The lead cashier did not maintain a prelisting of incoming mail that contained negotiable instruments payable to other entities or campus departments.
- ▶ Checks and credit card receipts collected during off-site events were neither endorsed on the day of receipt nor transported to the campus in a locked container.

SAM §8020 states that all incoming mail receipts consisting of cash and negotiable instruments, not payable to the state agency, will be prelisted by the person opening the mail to localize accountability of these assets.

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 §8034.1 and §8023 states that agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received.

The director of student financial services stated that prelisting procedures were established for the campus and that the established process was not followed by RCE due to turnover in staffing. She also stated that main cashiering provided training and endorsement stamps to RCE in the past and it was understood that checks collected at off-site conferences were to be immediately endorsed and transported in a secured container. The director of student financial services further stated that the turnover in staffing within both main cashiering and RCE resulted in a lack of follow-up on procedural compliance.

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

Recommendation 1

We recommend that the campus:

- a. Implement procedures at main cashiering to use press-numbered receipts in situations when the cashiering system is inoperable and maintain an inventory control system over receipts that are issued to satellite cashiering locations.
- b. Implement an inventory control system for press-numbered receipts maintained at SRO and establish procedures to secure such items.
- c. Maintain a prelisting of incoming mail that contains negotiable instruments payable to other entities or campus departments.

- d. Ensure that checks and credit card receipts collected during off-campus events are endorsed on the day of receipt and adequately safeguarded until deposited.

Campus Response

We concur.

- a. Press-numbered receipts have been obtained and are in use at main cashiering when the cashiering system is inoperable. Press-numbered receipt inventory logs have been implemented at satellite cashiering locations and will be verified during regularly scheduled cash fund audits.

Status: Complete, implemented effective May 1, 2008

- b. Press-numbered receipt inventory logs have been implemented at SRO as well as procedures to secure such items. Log and safeguard of press-numbered receipts will be verified during regularly scheduled cash fund audits.

Status: Complete, implemented effective May 1, 2008

- c. Student financial services has in the past and continues to maintain a prelisting. Training has been provided to satellite cashiering areas requiring prelisting of negotiable instruments payable to other entities or campus departments. Prelisting procedures will be verified during regularly scheduled cash fund audits. Training was conducted September 9-10, 2008, to cashiering and/or supervisory staff from communication account services, student health center, SRO, RCE, library circulation, Wildcat ID office, and the print shop. Training will occur every fall on an annual basis.

Status: Complete

- d. Ongoing training provided regarding endorsement of checks and safeguarding of funds until deposits. Procedures will be verified during regularly scheduled cash fund audits. Training was conducted September 9-10, 2008, to cashiering and/or supervisory staff from communication account services, student health center, SRO, RCE, library circulation, Wildcat ID office, and the print shop. Training will occur every fall on an annual basis.

Status: Complete

ACCOUNTS RECEIVABLE

The campus indirect cost allocation plan, including the methodology used to distribute costs of the facilities, goods, or services, was not reviewed and approved by the chief financial officer (CFO).

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, requires that campus presidents ensure that costs incurred by the California State University (CSU) operating fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and or documented exchange of value. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus CFO or designee shall annually approve and implement the cost allocation plan.

The associate vice president of business and finance stated that it was a campus oversight that the cost allocation plan was not signed by the CFO.

Failure to review and approve the cost allocation plan increases the risk that the campus-operating fund is not fully compensated for support provided to other CSU funds and the auxiliary organizations.

Recommendation 2

We recommend that the CFO review and approve the cost allocation plan and methodology used to distribute costs of facilities, goods, or services.

Campus Response

We concur. We have reviewed our cost allocation process and found it to be inadequate. We plan to remedy this finding by hiring a budget analyst over the next six weeks to begin an analysis of cost recovery and develop a methodology and a detailed plan for review by the chief fiscal officer between March and May 2009. A final plan will be in place by June 30, 2009.

Status: Completion date June 30, 2009

PURCHASING

Campus procurement card policies and procedures were not always enforced to ensure the timely submission of procurement card reconciliations.

Our review of 20 procurement card statements for ten employees dated between October 2007 and November 2007 disclosed that eight monthly statement reconciliations were forwarded to accounts payable between 22 and 37 days after the due date established by campus procurement card policies.

The California State University, Chico (CSUC), *Credit Card Procurement Express Card Program Policy and Procedures Manual* states, in part, that the approving official is responsible for reviewing reconciled monthly cardholder statements and forwarding approved statements to the accounts payable office no later than the 10th of each month.

EO 760, *Procurement Cards*, dated October 16, 2000, states in part that campus procurement card policies should ensure that the processing of credit card payments include a complete review and analysis of the monthly charges and campus departments be required to submit complete supporting documentation in a timely manner.

The associate vice president of business and finance stated that the late statements were specific to one department that experienced staffing reductions and management changes during the reviewed time period.

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

Recommendation 3

We recommend that the campus strengthen enforcement of its procurement card policy to ensure timely submission of procurement card reconciliations.

Campus Response

We concur. We have a policy which requires procurement card reconciliations be turned in to procurement and contracting by the tenth of the following month. Procurement and contracting are responsible for auditing all statements that includes the appropriate manager's signature and receipts for all purchases. In addition, the campus has implemented a new policy as of September 1, 2008, for our facilities management and services department that all receipts must be reconciled to a specific work order. Our procurement card policy manual will be updated by December 31, 2008, for a January 2009 implementation so that future cardholders or approving official will be clearly directed to the importance and consequences associated with procurement card reconciliation.

Status: Completion date January 1, 2009

OPERATING FUND

Travel advances were not always timely recovered.

Our review of 15 travel advances issued between July 2006 and December 2007 disclosed that:

- ▶ In five instances, advances to current employees were outstanding between 78 and 90 days.
- ▶ In three instances, travel advances were issued to the athletics department more than 30 calendar days prior to the anticipated travel and included six months of pending travel at various times during the semester.

SAM §8116.2 requires the submittal of a properly prepared travel expense claim to substantiate travel expenses as soon as possible after the trip(s) or at least once a month.

CSU directive HR 2005-49, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated December 16, 2005, states, in part, that the travel expense claim must be submitted within a reasonable period of time not to exceed 60 days.

The director of accounting operations stated that travel services was unable to enforce collection based on the interpretation of allowable payroll procedures. He further stated that this misinterpretation did not allow for the collection of delinquent travel advances from payroll warrants.

Insufficient control over travel advances increases the risk that operating fund monies may not be available or may be expended for inappropriate purposes, and reduces the likelihood of collection.

Recommendation 4

We recommend that the campus implement procedures to ensure that travel advances are timely recovered and are not issued more than 30 calendar days prior to the anticipated travel.

Campus Response

We concur. The payroll office, with financial services, will develop a procedure where the financial services offices will notify the payroll office of the need to collect outstanding travel advances by January 1, 2009. The procedure will include that payroll cancel the direct deposit of the employee. This action will allow financial services the opportunity to apply funds to the outstanding travel advance and issue the residual pay to the employee. While it is the standard practice of the campus not to issue travel advances, exceptions are made under certain circumstances. One of these exceptions are advances to coaches for athletic events. The travel office has modified its policy so that these advances are made no earlier than 30 days prior to the event.

Status: Completion date January 1, 2009

PAYROLL AND PERSONNEL

EMPLOYEE ELIGIBILITY VERIFICATION

Federal Form I-9, Employment Eligibility Verification, was not always obtained or timely completed. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Our review of ten new hire transactions disclosed that in two instances, the Form I-9 was completed between 13 and 23 business days after employment commenced and in one instance, the I-9 was not on file.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and non-citizens are required to complete Form I-9, Employment Eligibility Verification, at the time of hire, which is the actual beginning of employment. The act requires employers to examine evidence of identity and employment eligibility within three business days of the date employment begins.

The director of payroll, benefits and system support services stated that lack of completed employment papers and hiring authorizations in a timely manner was due to non-compliance with campus procedures by departmental units.

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

Recommendation 5

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

Campus Response

We concur. New employees must complete the employment eligibility verification form within three business days of the date employment begins or, in the case of an individual hired for less than three business days, at the time employment begins. Once the employment eligibility Form I-9 is completed and signed by the payroll/benefits representative (PBR) and the appropriate hire paperwork has been completed (EAR or SPAR), the PBR should complete an authorization to work form. The employee will return the form to the department. If an employee has not brought this form to his/her department within three business days of his/her employment begin date, he/she is not authorized to work and must not be performing duties.

Status: Complete

EMPLOYEE SEPARATION

Separation clearance forms were not always completed for separating employees. This is a repeat finding from the prior FISMA audit.

Our review of ten separations from July 2006 to December 2007 disclosed that separation clearance forms were not completed for three separating employees.

SAM §8580.4 describes the need for adequate separation procedures, including preparation of a clearance form that includes clearance of operating fund advances (travel and salary), return of keys, equipment, credit cards, etc.

The director of payroll, benefits and system support services and the director of student financial services stated that the process is dependent upon timely notification and compliance by separating employees. They further stated that the ability to enforce separation clearance procedures is limited because the campus cannot withhold final paychecks.

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

Recommendation 6

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

Campus Response

We concur. While enforcement of separation clearance procedures is difficult since the campus is no longer able to hold final warrants pending completion of the process, the following steps are being taken to strengthen it: Announcements will be posted in Campus Announcements before peak months of separations reminding departments to start the separation process by completing the advanced notice of separating employee form and following up with the separation clearance form. Presentations will be given at various attendance clerk meetings throughout the year to educate and remind key administrative office support personnel of the process and its importance. A change will also be made in the process itself to improve the collection of separation clearance forms. In summary, since the departments have to perform an office clearance, an added step will be to remind the separating employee of their responsibility and benefit to visit the personnel office and the cashiering office. Once they have done that, the department will send the separation form directly to cashiering. Another avenue currently being explored is creating a reminder and web link from the staff action form, which formally initiates personnel transactions to separate employees, to the advanced notice of separating employee form. The current practice of forwarding separation clearance forms to departmental offices whenever cashiering is notified of a final warrant by payroll for which there is not a separation clearance form will continue along with the additional follow-up conducted to ensure maximum compliance with established procedures.

Status: Complete

FIXED ASSETS

HOME USE PERMITS

Home use permits were not always completed and approved for off-campus use of university computers.

Our review of ten laptops used by campus personnel disclosed that the campus did not have home use permits on file for nine of these items that were used off-campus.

CSUC, *Property Management Policies and Procedures for Management of University Property*, states that university property may not be utilized off-campus unless it is necessary for the performance of university business. If university property has been approved to be used off-campus, it is the responsibility of the department to complete an off-campus use of state property form before the property is removed from campus.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

SAM §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.

The director of environmental health and safety stated that the lack of completed home use permits was due to non-compliance with campus policy by departmental units.

Failure to utilize off-campus use forms increases the risk of unauthorized use and loss of state property.

Recommendation 7

We recommend that the campus enforce home use permits for off-campus use of university computers.

Campus Response

We concur. New procedures have been established to ensure that no newly purchased laptop computer is issued to the department or user without an off-campus use form completed and on file in the property management office (PMO). In addition, the PMO is now placing “Tips of the Quarter” in our Campus Announcements. The information placed in Campus Announcements includes information regarding the rules and regulations that pertain to the use, transfer, care, proper forms, and disposal of university property. The first announcement included the requirement for a

completed off-campus use form for any laptop computer or equipment taken off-campus. Procedures implemented July 1, 2008, and responsibility assigned to the PMO.

Status: Complete, implemented effective July 1, 2008

FIXED ASSET DISPOSALS/DELETIONS

Property management survey board approval was not always obtained prior to asset disposal/deletion.

Our review of 20 asset disposals for the period of July 2006 through December 2007 disclosed that in seven instances, campus departments had disposed of equipment prior to obtaining the approval of the property survey board approval. Two of these disposals were also not reported to the campus property management office.

CSUC, *Property Management Policies and Procedure for Management of University Property*, states in part that no item shall be sold, transferred, or disposed of outside of CSUC without prior approval of the duly appointed property management survey board and all dispositions of surplus property must go through the property management office unless special arrangements have been approved in advance.

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 director of environmental health and safety stated that the recycled items were disposed of prior to approval by the property management survey board due to departments not following documented campus procedure.

Insufficient control over fixed asset disposal and property accounting increases the risk of misstated property records.

Recommendation 8

We recommend that the campus strengthen controls to ensure that property management survey board authorization is obtained prior to asset disposal and deletion from the property system.

Campus Response

The PMO staff has been informed of the importance of property survey board authorization prior to asset disposal and deletion from the property system. All property disposals will have an approved Property Survey Report, STD .152 prior to disposal or write-off. All property survey reports will be authorized by the campus property survey board prior to asset disposal and deletion from the property system. Procedures were implemented July 1, 2008, and responsibility assigned to the PMO.

Status: Complete, implemented effective July 1, 2008

APPENDIX A: PERSONNEL CONTACTED

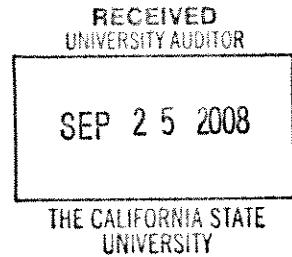
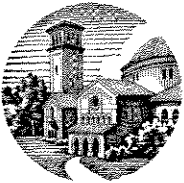
<u>Name</u>	<u>Title</u>
Paul J. Zingg	President
Andi Beach	Director, Payroll, Benefits and System Support Services
Jan Burnham	Director, Student Financial Services
Rueben Canny	Administrative Analyst/Specialist
Stacie Corona	Director, Budget Analysis and Research
Carol Ebel	Pharmacy Technician
Erika Eden	Property Clerk
Sean Farrell	Associate Vice President, Business and Finance
Catherine Felix	Director, Student Health Services
Faith Felix-Colburn	Lead Pharmacist
David Foreman	Director, Accounting Operations
Denise Gavello	Accounting Technician
Beverly Gentry	Director, Strategic Planning
Pat Heath	Accounting Technician
Lorraine Hoffman	Vice President, Business and Finance
Matt Horn	Accountant
Pattie Jenkins	Director, Procurement and Contract Services
Cindy Kelly	Accounts Payable Technician
Michelle Korte	Director, Financial Reporting
Larry Langwell	Supervisor, Student Records Office
Darnell Lee	Collections Supervisor
Suzy Littrell	Cashiering Supervisor
Anna Magena	Accountant
Tammy Meigs	Staff Pharmacist
Doreen Mendes	Accounting Technician
Lesley Nix-Baker	Vice Provost, Human Resources
Gina O'Neal	Student Financial Services Collector
Katy Rollo	Accounting Technician II
Patti Salomon	Financial Reporting Analyst
Sondra Sample	Supervisor, Accounts Payable
Ken Sator	Director, Environmental Health and Safety
Jason Smock	Property Clerk II
Janna Sterling	Administrative Support Assistant
Katy Sylvia	Administrative Support Assistant

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September 23, 2008

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210



Larry
Dear Mr. Mandel:

Enclosed is California State University, Chico's response to the CSU FISMA Audit Report 08-03. We appreciate the time and effort your office has invested in the review of our procedures and internal controls. We welcome the report's recommendations and will take the actions necessary to address them.

If you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,

Lorraine B. Hoffman
Vice President for Business and Finance

cc: Paul J. Zingg
Dave Foreman

CALIFORNIA STATE UNIVERSITY, CHICO
FISMA Audit Report 08-03

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Implement procedures at main cashiering to use press-numbered receipts in situations when the cashiering system is inoperable and maintain an inventory control system over receipts that are issued to satellite cashiering locations.
- b. Implement an inventory control system for press-numbered receipts maintained at SRO and establish procedures to secure such items.
- c. Maintain a prelisting of incoming mail that contains negotiable instruments payable to other entities or campus departments.
- d. Ensure that checks and credit card receipts collected during off-campus events are endorsed on the day of receipt and adequately safeguarded until deposited.

Campus Response: We concur.

- a. Press-numbered receipts have been obtained and are in use at main cashiering when the cashiering system is inoperable. Press-numbered receipt inventory logs have been implemented at satellite cashiering locations and will be verified during regularly scheduled cash fund audits.

Status: Complete-Implemented effective May 1, 2008.

- b. Press-numbered receipt inventory logs have been implemented at SRO as well as procedure to secure such items. Log and safeguard of press-number receipts will be verified during regularly scheduled cash fund audits.

Status: Complete-Implemented effective May 1, 2008.

- c. SFIN has in the past and continues to maintain a prelisting. Training has been provided to satellite cashiering areas requiring prelisting of negotiable instruments payable to other entities or campus departments. Prelisting procedures will be verified during regularly scheduled cash fund audits. Training was conducted September 9 and 10, 2008 to cashiering and/or supervisory staff from Communication Account Services, Student Health Center, Student Records & Registration, Regional & Continuing Education,

Library Circulation, Wildcat ID Office, and Print Shop. Training will occur every Fall on an annual basis.

Status: Complete

- d. Ongoing training provided regarding endorsement of checks and safeguarding of funds until deposits. Procedures will be verified during regularly scheduled cash fund audits. Training was conducted September 9 and 10, 2008 to cashiering and/or supervisory staff from Communication Account Services, Student Health Center, Student Records & Registration, Regional & Continuing Education, Library Circulation, Wildcat ID Office, and Print Shop. Training will occur every Fall on an annual basis.

Status: Complete

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the CFO review and approve the cost allocation plan and methodology used to distribute costs of facilities, goods, or services.

Campus Response: We concur.

We have reviewed our cost allocation process and found it to be inadequate. We plan to remedy this finding by hiring a budget analyst over the next six weeks to begin an analysis of cost recovery and develop a methodology and a detailed plan for review by the Chief Fiscal Officer between March and May, 2009. A final plan will be in place by June 30, 2009.

Status: Completion date, June 30, 2009

PURCHASING

Recommendation 3

We recommend that the campus strengthen enforcement of its procurement card policy to ensure timely submission of procurement card reconciliations.

Campus Response: We concur.

We have a policy which requires procurement card reconciliations be turned in to Procurement and Contracting by the 10th of the following month. Procurement and Contracting are responsible for auditing all statements that includes the appropriate manager's signature and receipts for all purchases. In addition, the

campus has implemented a new policy as of September 1, 2008 for our Facilities Management and Services department that all receipts must be reconciled to a specific work order. Our Procurement Card policy manual will be updated by December 31, 2008 for a January 2009 implementation so that future cardholders or approving official will be clearly directed to the importance and consequences associated with procurement card reconciliation.

Status: Completion date, January 1, 2009.

OPERATING FUND

Recommendation 4

We recommend that the campus implement procedures to ensure that travel advances are timely recovered and are not issued more than 30 calendar days prior to the anticipated travel.

Campus Response: We concur.

The Payroll Office, with Financial Services, will develop a procedure where the Financial Services Offices will notify the Payroll Office of the need to collect outstanding travel advances by January 1, 2009. The procedure will include that Payroll will cancel the direct deposit of the employee. This action will allow Financial Services the opportunity to apply funds to the outstanding travel advance and issue the residual pay to the employee. While it is the standard practice of the campus not to issue travel advances, exceptions are made under certain circumstances. One of these exceptions are advances to coaches for athletic events. The Travel Office has modified its policy so that these advances are made no earlier than 30 days prior to the event.

Status: Completion date, January 1, 2009

PAYROLL AND PERSONNEL

EMPLOYEE ELIGIBILITY VERIFICATION

Recommendation 5

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

Campus Response: We concur.

New employees must complete the Employment Eligibility Verification Form within three business days of the date employment begins, or, in the case of an individual hired for less than three business days, at the time employment begins.

Once the Employment Eligibility Form I-9 is complete and signed by the Payroll/Benefits Representative (PBR) and the appropriate hire paperwork has been completed (EAR or SPAR) the PBR should complete an Authorization to Work Form. The employee will return the form to the department. If an employee has not brought this form to their department within 3 business days of their employment begin date they are not authorized to work and must not be performing duties.

Status: Complete

EMPLOYEE SEPARATION**Recommendation 6**

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

Campus Response: We concur.

While enforcement of separation clearance procedures is difficult since the campus is no longer able to hold final warrants pending completion of the process, the following steps are being taken to strengthen it.

Announcements will be posted in Campus Announcements before peak months of separations reminding departments to start the separation process by completing the Advanced Notice of Separating Employee Form and following up with the Separation Clearance Form.

Presentations will be given at various Attendance Clerk meetings throughout the year to educate and remind key administrative office support personnel of the process and its importance.

A change will also be made in the process itself to improve the collection of separation clearance forms. In summary, since the departments have to perform an office clearance, an added step will be to remind the separating employee of their responsibility and benefit to visit the Personnel Office and the Cashiering Office. Once they have done that, the department will send the separation form directly to Cashiering.

Another avenue currently being explored, is creating a reminder and web link from the Staff Action Form, which formally initiates personnel transactions to separate employees, to the Advanced Notice of Separating Employee form.

The current practice of forwarding Separation Clearance Forms to departmental offices whenever Cashiering is notified of a final warrant by payroll for which there is not a SCF will continue along with the additional follow-up conducted to ensure maximum compliance with established procedures.

Status: Complete

FIXED ASSETS

HOME USE PERMITS

Recommendation 7

We recommend that the campus enforce home use permits for off-campus use of university computers.

Campus Response: We concur.

New procedures have been established to ensure that no newly purchased laptop computer is issued to the department or user without an Off Campus Use form completed and on file in the Property Management Office (PMO). In addition, the PMO is now placing "Tips of the Quarter" in our campus announcements. The information placed in campus announcements includes information regarding the rules and regulations that pertain to the use, transfer, care, proper forms, and disposal of university property. The first announcement included the requirement for a completed Off Campus Use form for any laptop computer or equipment taken off campus. Procedures implemented July 1, 2008 and responsibility assigned to the PMO.

Status: Complete-implemented effective July 1, 2008.

FIXED ASSET DISPOSALS/DELETIONS

Recommendation 8

We recommend that the campus strengthen controls to ensure that property management survey board authorization is obtained prior to asset disposal and deletion from the property system.

Campus Response: We concur.

The PMO staff has been informed of the importance of Property Survey Board authorization prior to asset disposal and deletion from the property system. All property disposals will have an approved Property Survey Report, STD 152 prior to disposal or write-off. All Property Survey Reports will be authorized by the campus Property Survey Board prior to asset disposal and deletion from the property system. Procedures implemented July 1, 2008 and responsibility assigned to the PMO.

Status: Complete-implemented effective July 1, 2008.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

October 7, 2008

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 08-03 on *FISMA*,
California State University, Chico

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 7, 2008, I accept the response as submitted with the draft final report on *FISMA*, California State University, Chico.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Ms. Lorraine B. Hoffman, Vice President, Business and Finance
Dr. Paul J. Zingg, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS