

FISMA

**CALIFORNIA STATE UNIVERSITY,
FULLERTON**

**Audit Report 08-09
July 9, 2009**

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THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CMS	Common Management Systems
CSU	California State University
CSUF	California State University Fullerton
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
HR	Human Resources
IT	Information Technology
SAM	State Administrative Manual
SCO	State Controller's 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 Fullerton (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 November 17, 2008, through January 23, 2009, and made a study and evaluation of the accounting and administrative control in effect as of January 23, 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: accounts receivable, payroll, and property. Two of the five findings were also noted in the prior FISMA audit. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, due to the effect of the weaknesses described above, CSUF's accounting and administrative control in effect as of January 23, 2009, taken as a whole, was not 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.

ACCOUNTS RECEIVABLE [7]

Payroll accounts receivables were inappropriately created and were not pursued in a sufficient and timely manner. This is a repeat finding from the prior two FISMA audits.

PAYROLL [9]

The payroll office did not have an approved formal policy to ensure that payments and salary transactions comply with systemwide standards, duties and responsibilities related to payroll accounts receivable and salary advances were not properly segregated, and administration of salary advances was inadequate.

PROPERTY [12]

Administration of campus property was inadequate. This is a repeat finding from the prior FISMA audit.

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 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 2007/08 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 2008 to September 2008. 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 disposals.
- ▶ Access restrictions to accounting systems.
- ▶ Establishment of trust funds, separate accounting, and adequate agreements.

We have not performed any auditing procedures beyond January 23, 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

ACCOUNTS RECEIVABLE

Payroll accounts receivable were inappropriately created and were not pursued in a sufficient and timely manner.

When we reviewed 20 payroll accounts receivable that were 181 days past due according to the June 30, 2008, aging report, we found the following:

- ▶ In seven instances, payroll receivables were created because the payroll department was unaware of employee status changes. In these instances, the payroll department continued to pay employees who were no longer working for the campus.
- ▶ In six instances, employees received their initial notification between 45 and 321 days after their accounts receivable were established.
- ▶ In 12 instances, 157 to 3,049 days elapsed between the dates of the second and third collection letters. In three instances, the payroll receivables were not sent to a collection agency or written off after all available means of collection were exhausted. These findings were also noted in the prior two Financial Integrity State Manager's Accountability Act (FISMA) audits.

In general, we found that the collection of outstanding payroll accounts receivable was not completed in a timely manner. Seventy-one percent (\$178,781) of the total accounts on the June 30, 2008, aging report were over 180 days past due. This finding was noted in the prior FISMA audit.

State Administrative Manual (SAM) §8776 states that an invoice or other type of claim document will be prepared and sent out as soon as practical and within 30 days after the recognition of a claim.

SAM §8776.6 requires that the collection procedures for non-employee accounts receivable be followed when collecting receivables from former state employees and that each department develop collection procedures that will assure prompt follow-up on receivables. Further, it requires that the accounting office send a sequence of three collection letters at 30-day intervals. If the collection letters are unsuccessful, a cost/benefit analysis of possible collection actions should be prepared. This analysis should include contracting with a collection agency. If all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectable amounts due from private entities. Departments will review their accounts receivable no less than quarterly to identify receivables for discharge.

SAM §8776.7 includes procedures to be employed in the collection of amounts due from employees. These procedures include notifying the employee of the receivable in writing and ensuring that a written repayment schedule is signed by the employee.

SAM §20050 states that internal control weaknesses that are detected but not acted upon in a timely fashion are usually indicative of a poorly maintained or vulnerable control system.

The director of payroll services stated that the department was not notified of employee status changes by campus departments in a timely manner and that payroll services initiated action to recover overpayments as soon as such notification occurred. She also stated that procedures developed in response to the last FISMA audit required employee and former employee accounts receivable to be sent to the Franchise Tax Board, but since there is no explicit requirement that outstanding debts be sent to a collection agency or written off, the campus had not initiated these actions.

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

Recommendation 1

We recommend that the campus:

- a. Provide notification to payroll services of employee status changes and/or separation.
- b. Notify employees of the establishment of payroll receivables in a timely manner.
- c. After establishing a payroll receivable, send a sequence of three collection letters at 30-day intervals.
- d. Perform a cost/benefit analysis of additional collection actions, such as contracting with a collection agency, if collection letters are unsuccessful.
- e. Review payroll receivables on a quarterly basis to identify accounts for discharge.

Campus Response

We concur. By December 1, 2009, the campus will institute measures to ensure payroll services is notified of employee status changes and/or separation; notify employees of the establishment of payroll receivables in a timely manner; send a sequence of three collection letters at 30-day intervals after establishing a payroll receivable; perform a cost/benefit analysis of additional collection actions if collection letters are unsuccessful; and review payroll receivables on a quarterly basis to identify accounts for discharge.

PAYROLL

SALARY AND PAYROLL PROCESSING PROCEDURES

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 director of payroll services stated that a formal salary and payroll policy has been drafted and will be routed for review and approval prior to implementation.

Inadequate procedures increase the likelihood of improper coding of payments and salary transactions, and thus can cause the campus to fail to fully comply with systemwide standards.

Recommendation 2

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. The campus has established and implemented an approved formal policy that meets systemwide standards for salary and payroll processing.

SEGREGATION OF DUTIES

Duties and responsibilities related to payroll accounts receivable and salary advances were not properly segregated.

We found that:

- ▶ The payroll department created and approved salary advances and payroll accounts receivable and also received payments directly to the area for these items.

- ▶ Payroll account representatives had access to and updated information in Common Management Systems (CMS) Finance and the Personnel/Payroll Information Management System.

SAM §8080, §8080.1, and §8080.2 state that no one person will perform more than one of the following types of duties: maintaining books of original entry, receiving and depositing remittances, inputting receipts information, and reconciling input to output.

The director of payroll services stated her belief that payroll accounts receivable and salary advances were properly segregated since the payroll employee creating and approving the advance/receivable was not the same employee receiving payments. She also stated that payroll account representatives were given access to CMS Finance in error.

Inadequate segregation of duties increases the risk of misstated assets and loss from inappropriate acts, reduces the likelihood of collection, and negatively impacts cash flow.

Recommendation 3

We recommend that the campus:

- a. Implement appropriate segregation of duties relating to the processing and repayment of payroll accounts receivable and salary advances.
- b. Remove access for persons that can update information in both CMS Finance and the Personnel/Payroll Information Management System.

Campus Response

We concur. The campus will implement appropriate segregation of duties relating to the processing and repayment of payroll accounts receivable and salary advances and remove access for persons that can update information in both CMS Finance and the Personnel/Payroll Information Management System by December 1, 2009.

SALARY ADVANCES

Administration of salary advances was inadequate.

We found that over 83 percent (\$51,777) of the total salary advances listed on the June 30, 2008, salary advance reconciliation were over 181 days past due. Of the 20 salary advances reviewed, we also found that:

- ▶ In one instance, an employee with an outstanding salary advance was given another advance two years later. The original advance had never been collected or deducted from the employee's pay warrant.

- ▶ In 12 instances, the salary advance request form did not state a specific reason for the advance.
- ▶ In two instances, the State Controller's Office (SCO) warrant that should have been used to collect the advance was instead sent to the employee. As a result, the employee received the advance amount twice.
- ▶ In seven instances, 557 to 1,481 days elapsed between the date of the second and third collection letters.
- ▶ In two instances, the employee did not sign a written repayment agreement.
- ▶ In two instances, the balances were not sent to a collection agency or written off after all available means of collection were exhausted.

SAM §8595 states that written criteria will be prepared for advances including the procedures that must be followed before advances are given, and the specific reason for a salary advance must be written on the salary advance request form.

SAM §8776.6 requires that each department develop collection procedures that will ensure prompt follow-up on receivables. Further, the accounting office will send a sequence of three collection letters at 30-day intervals. If the collection letters are unsuccessful, an analysis should be prepared detailing additional collection efforts, including contracting with a collection agency.

SAM §8776.7 includes procedures to be employed in the collection of amounts due from employees. These procedures include notifying the employee of the receivable in writing and ensuring that a written repayment schedule is signed by the employee. SAM §8776.7 also states that Government Code Section 19838 authorizes the state to withhold amounts owed for outstanding travel and salary advances from an employee's final separation pay.

The director of payroll services stated that the time delays between collection letters were caused in part by turnover in payroll services staff and in part by the fact that some past-due receivables had been sent to the Franchise Tax Board but not forwarded to a collection agency or written off since there is no explicit requirement to do so. In addition, she stated that the instances of reissuance of salary advances and failure to apply the SCO pay warrants were due to turnover of payroll services staff and to oversight.

Inadequate administration of salary advances increases the risk of financial loss due to unauthorized salary advances, reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

Recommendation 4

We recommend that the campus:

- a. Develop a procedure for collecting outstanding salary advances from employees prior to issuing additional advances.
- b. Document the specific reasons for salary advances on the salary advance form.
- c. Develop a procedure for checking for prior advances during the separation process.
- d. Send a sequence of three collection letters at 30-day intervals for outstanding advances.
- e. Maintain documentation of communications with employees who have received salary advances and of the employees' agreement to repayment plans.
- f. Review the outstanding salary advance accounts on at least a quarterly basis to identify receivables for discharge.

Campus Response

We concur. By December 1, 2009, the campus will develop a procedure for collecting outstanding salary advances prior to issuing additional advances; document the specific reasons for salary advances on the salary advance form; develop a procedure for checking for prior advances during the separation process; send a sequence of three collection letters at 30-day intervals for outstanding advances; maintain documentation of communications regarding salary advances received and repayment plans; and review the outstanding salary advance accounts on at least a quarterly basis to identify receivables for discharge.

PROPERTY

Administration of campus property was inadequate. This is a repeat finding from the prior FISMA audit.

We noted that:

- ▶ The campus had not performed a complete physical inventory. The campus performed a partial inventory in August 2007, but this inventory only documented physical verification of property totaling \$9,342,501, or 33 percent of the \$27,864,466 of equipment tracked by the Asset Management System. (This \$27,864,466 did not include the high-risk computer inventory tracked by Information Technology (IT). As a result of the lack of a completed physical inventory, the accuracy of the property recorded to the general ledger and the related reconciliations could not be substantiated.

- ▶ Inventory reports from the various departments were incomplete and lacked sufficient detail to determine who performed the inventory, the condition of the inventory, and the date the inventory was performed. In addition, the inventory reports did not state if there were any missing items that should be removed from or additional items that should be included in the property asset listing. Specifically, we noted the following:
 - The inventory reports did not demonstrate that anyone other than the asset custodian verified the existence of the property assets.
 - The inventory did not note the condition of 383 items valued at \$2,910,792.
 - Thirteen items were found during the inventory that were not included on the property asset listing. This is an indication that departments were not notifying the property coordinator of direct deliveries, and these assets were not being tagged and recorded.
 - One of the inventory reports noted that a server did not have a California State University, Fullerton property tag and was not in the property asset listing. The server included in the property asset listing could not be located.
 - All computers were not tracked. Departments did not always inform IT of computer purchases; therefore, IT was only able to track the computers that it procured.

SAM §8650 states that the property records for each property acquisition will include the date acquired, a property description, the property identification number, the cost or other basis of valuation, owner fund, and the rate of depreciation, if applicable. Property records shall include both capitalized and non-capitalized property.

SAM §8651 states that all state property must be tagged after acquisition.

SAM §8652 requires that every three years, each campus must perform a physical count of all property and reconcile that count with accounting records.

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

The director of physical plant stated that the fixed asset inventory had not been completed in 2007 due to turnover in the manager position responsible for this area, conversion to CMS restricting the physical plant's ability to run fixed asset reports for more than a year, and lack of follow-up by the departmental administrators responsible for the assets.

Inadequate administration of property increases the risk of misstated property records and of theft, loss, or unauthorized use of state property.

Recommendation 5

We recommend that the campus:

- a. Take immediate action to perform a physical inventory of all university property and to reconcile the physical inventory with its accounting records.
- b. Ensure that personnel other than the asset custodian perform the physical inventory verification and that inventory report format is consistent for each department.
- c. Ensure that all assets, including sensitive items, are tagged and recorded in the property records.

Campus Response

We concur. The campus has initiated a physical inventory of all university property and by November 30, 2009, will reconcile this inventory with accounting records; ensure the physical inventory verification is completed by personnel other than the asset custodian and the inventory report format is consistent for each department; and ensure all assets, including high-risk (i.e., sensitive) items are tagged and recorded in the property records.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Milton A. Gordon	President
Welson Badal	Director of Administration and Finance, Information Technology
Karen Batten	Technical Supervisor, Payroll
Ruby Cook	Analyst, Human Resources Services
Donald Green	Director, Contracts and Procurement
William Hagan	Vice President of Administration
Glenda Hart	Director of Payroll Services
Bahram Hatefi	Director of Internal Audit
Laura Hultman	Accountant II
Diana Janzen	Cashiering Supervisor
Terry Jarmon	IT Property Coordinator
Brian Jenkins	Associate Vice President, Finance
Jennifer McGhen	Athletics Ticket Manager
Danny Miranda Jr.	Logistical Services, Manager
Hien Nguyen	Accounts Payable Analyst
Lo-An Nguyen	Accountant, Parking and Transportation Services
Mai Pham	Accountant II
Zia Qureshi	Associate Director of Student Financial Services
Robert Scialdone	Associate Athletic Director, Business Affairs
James Stroh	Property Coordinator, Physical Plant
Mary Ann Torres	Director, Accounts Payables
Irma Torres-Garcia	Accounting Technician III, Parking Permit, Sales and Issuance
Willem Van der Pol	Director, Physical Plant
Candi Watkins	Lead Accounting Technician III
Leslie Wolbers	Associate Director, Student Financial Services
May Wong	Director, Accounts Payable
Steve Yim	Controller



CALIFORNIA STATE UNIVERSITY, FULLERTON

Office of the President

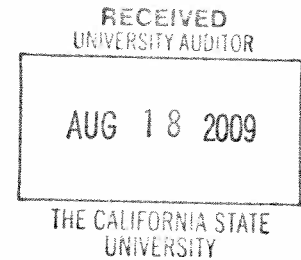
P.O. Box 6810, Fullerton, CA 92834/6810 / T 657-278-3456 / F 657-278-2649

DATE: August 11, 2009

TO: Larry Mandel
University Auditor

FROM: Milton A. Gordon
President *may*

SUBJECT: Response for FISMA Audit Report 08-09



I am pleased to forward California State University, Fullerton's official response to the five recommendations in the FISMA Audit Report 08-09.

Once again, we would like to thank the University Auditor and his staff for conducting the audit in a professional manner and identifying meaningful ways to improve internal accounting and administrative control in compliance with state and CSU guidelines.

The Campus Auditor, Bahram Hatefi, will also forward the responses to you electronically for your convenience. Should you have questions, please contact Bahram at 714-278-7299 or bhatefi@fullerton.edu.

Attachments

cc: Willie Hagan, Vice President, Administration & Finance CFO
Naomi Goodwin, Assistant Vice President, Administration & Finance
Bahram Hatefi, Director of CSUF Internal Audit

**FISMA
CALIFORNIA STATE UNIVERSITY,
FULLERTON**

Audit Report 08-09

ACCOUNTS RECEIVABLE

Recommendation 1

We recommend that the campus:

- a. Provide notification to payroll services of employee status changes and/or separation.
- b. Notify employees of the establishment of payroll receivables in a timely manner.
- c. After establishing a payroll receivable, send a sequence of three collection letters at 30-day intervals.
- d. Perform a cost/benefit analysis of additional collection actions, such as contracting with a collection agency, if collection letters are unsuccessful.
- e. Review payroll receivables on a quarterly basis to identify accounts for discharge.

Campus Response

We concur. By December 1, 2009, the campus will institute measures to ensure payroll services is notified of employee status changes and/or separation; notify employees of the establishment of payroll receivables in a timely manner; send a sequence of three collection letters at 30-day intervals after establishing a payroll receivable; perform a cost benefit analysis of additional collection actions if collection letters are unsuccessful; and review payroll receivables on a quarterly basis to identify accounts for discharge.

PAYROLL

SALARY AND PAYROLL PROCESSING PROCEDURES

Recommendation 2

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. The campus has established and implemented an approved formal policy that meets systemwide standards for salary and payroll processing.

SEGREGATION OF DUTIES

Recommendation 3

We recommend that the campus:

- a. Implement appropriate segregation of duties relating to the processing and repayment of payroll accounts receivable and salary advances.
- b. Remove access for persons that can update information in both CMS Finance and the Payroll Information Management System.

Campus Response

We concur. The campus will implement appropriate segregation of duties relating to the processing and repayment of payroll accounts receivable and salary advances and remove access for persons that can update information in both CMS Finance and the Payroll Information Management System by December 1, 2009.

SALARY ADVANCES

Recommendation 4

We recommend that the campus:

- a. Develop a procedure for collecting outstanding salary advances from employees prior to issuing additional advances.
- b. Document the specific reasons for salary advances on the salary advance form.
- c. Develop a procedure for checking for prior advances during the separation process.
- d. Send a sequence of three collection letters at 30-day intervals for outstanding advances.
- e. Maintain documentation of communications with employees who have received salary advances and of the employees' agreement to repayment plans.
- f. Review the outstanding salary advance accounts on at least a quarterly basis to identify receivables for discharge.

Campus Response

We concur. By December 1, 2009, the campus will develop a procedure for collecting outstanding salary advances prior to issuing additional advances; document the specific reasons for salary advances on the salary advance form; develop a procedure for checking for prior advances during the separation process; send a sequence of three collection letters at 30-day intervals for outstanding advances; maintain documentation of communications regarding salary advances received and repayment plans; and review the outstanding salary advance accounts on at least a quarterly basis to identify receivables for discharge.

PROPERTY

Recommendation 5

We recommend that the campus:

- a. Take immediate action to perform a physical inventory of all university property and to reconcile the physical inventory with its accounting records.
- b. Ensure that personnel other than the asset custodian perform the physical inventory verification and that inventory report format is consistent for each department.
- c. Ensure that all assets, including sensitive items, are tagged and recorded in the property records.

Campus Response

We concur. The campus has initiated a physical inventory of all university property and by November 30, 2009, will reconcile this inventory with accounting records; ensure the physical inventory verification is completed by personnel other than the asset custodian and the inventory report format is consistent for each department; and ensure all assets, including high risk (i.e., sensitive) items are tagged and recorded in the property records.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 16, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

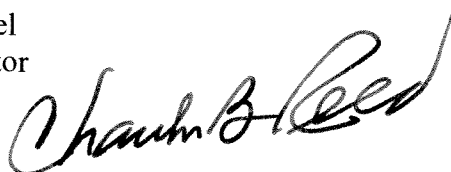
DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor



FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 08-09 on *FISMA*,
California State University, Fullerton

LONG BEACH

LOS ANGELES

In response to your memorandum of September 16, 2009, I accept the response as submitted with the draft final report on *FISMA*, California State University, Fullerton.

MARITIME ACADEMY

MONTEREY BAY

NORTH RIDGE

CBR/amd

POMONA

Enclosure

SACRAMENTO

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

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS